

JPRS-EER-90-007  
19 JANUARY 1990



**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

# ***JPRS Report***

## **East Europe**

### **DISTRIBUTION STATEMENT A**

**Approved for public release;  
Distribution Unlimited**

REPRODUCED BY  
U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL INFORMATION SERVICE  
SPRINGFIELD, VA. 22161

**DTIC QUALITY INSPECTED 3**

19980204 031

# East Europe

JPRS-EER-90-007

## CONTENTS

19 JANUARY 1990

### POLITICAL

#### HUNGARY

Final-100-Days' Honeymoon Granted to Nemeth Government [HETI VILAGGAZDASAG 16 Dec] .....	1
Results of Referendum Outlined by Counties [NEPSZABADSAG 30 Nov] .....	1
Countryside Seen Getting Short Shift From Budapest [Helsinki HELSINGIN SANOMAT 13 Nov] .....	3
Anti-Semitism: MDF Files Defamation Suit Against Ivan Berend [NEPSZABADSAG 22 Nov] .....	4

#### POLAND

Christian-National Union Chairman on Party's Genesis [TYGODNIK SOLIDARNOSC 17 Nov] ..	4
---	---

### ECONOMIC

#### GERMAN DEMOCRATIC REPUBLIC

Ways To Increase Efficiency in Rehabilitating, Modernizing [WIRTSCHAFTSWISSENSCHAFT Nov] .....	8
---	---

#### HUNGARY

GKI Presents Grim 1989 Economic Report, 1990 Outlook [FIGYELO 30 Nov] .....	16
Government Attitude Toward Proposed 1990 Budget Criticized [HETI VILAGGAZDASAG 25 Nov] .....	20
New Foreign Exchange Restriction on Business [HETI VILAGGAZDASAG 16 Dec] .....	23
Vienna, Budapest Selection Confirmed for EXPO 1995 [NEPSZABADSAG 15 Dec] .....	23
Proposed Antitrust Laws Released for Public Comment [FIGYELO 14 Dec] .....	24

#### POLAND

Conclusions Drawn From List of Manufacturing Industries [POLITYKA-EKSPORT-IMPORT 30 Sep] .....	37
Foreign Markets' Periodical Presents Own List of Leading Exporters [RYNKI ZAGRANICZNE 17 Oct] .....	39
Helicopter Production Down, Italian Partnership Opposed [POLITYKA 18 Nov] .....	44

### SOCIAL

#### HUNGARY

Population Growth Policy: Timely, Circumspect Introduction Urged [FIGYELO 14 Dec] .....	47
---	----

## HUNGARY

### Final-100-Days' Honeymoon Granted to Nemeth Government

25000566A Budapest HETI VILAGGAZDASAG in Hungarian 16 Dec 89 p 7

[Unattributed article: "Summit Setting"]

[Text] Let the masquerade ball come to an end, let it be known which party can claim real social support, Miklos Nemeth quoted one of his unnamed negotiating partners after a three-day national summit held last weekend in Parliament. There is little doubt about the timeliness of the statement. A real carnival prevailed at a multiparty press conference that preceded a joint press conference held by the President of the House and the prime minister: Along with the parties of the Opposition Roundtable that are regarded almost as traditional parties, and new groups—which have acquired some prestige but were formed recently—a few self-appointed leaders of phantom parties have appeared in Parliament. Their size of membership is unknown.

It then became clear on Sunday: A majority of the 30 organizations that took part in the national summit agreed with the idea that the "masquerade ball" should be interrupted. Without exception, 14 of the invited interest groups and the parties in a 12:5 ratio supported the idea of advancing the day that parliamentary elections are to be held to March. It now depends solely on whether the National Assembly, to convene on 18 December, will be willing to shorten its mandate.

The agenda of the Hungarian-Hungarian summit meeting includes a detailed political schedule for the upcoming months. A majority of the parties agreed that prior to the expiration of the government's official tenure, it should submit seven legislative proposals to Parliament. These concern (1) the protection of state property, (2) the state trust fund, (3) private enterprise, (4) the central bank, (5) the press, (6) freedom of religion, and (7) public service. The interest groups suggested that this legislative package be expanded by adding three more issues, thus it is conceivable that the Parliament will also be asked to deal with legislative proposals concerning social security, autonomous governments, and interest representation.

The most heated debate between the government and leading officials of Parliament pertained to the budget proposal and to the housing concept. Since the parties did not receive copies of these proposals, they were able to make only a few general comments regarding these issues. Peter Tolgyessy, representative for the Alliance of Free Democrats [SZDSZ], urged that wage indexing adjusted to the inflation rate be introduced in the education and health care fields, and noted that the planned pace of price increases set at between 19 and 19.5 percent is dangerously close to the critical 20-percent level, which threatens hyperinflationary processes once reached. MDF [Hungarian Democratic Forum] President Jozsef Antall urged that a six-month crisis management program be developed, and announced at the

same time that his organization does not intend to use social demagoguery during the upcoming critical months.

With regard to ongoing negotiations with the International Monetary Fund, Nemeth said that certain budgetary base figures have evolved already. There is a chance for an agreement with the IMF, if those figures are agreed to by Parliament. This much was said about these base figures: In the framework of the projected 1990 budget they intend to reduce enterprise subsidies by 41 billion forints, and this year's budgetary deficit, which was claimed to amount to 21 billion forints but which in reality amounts to 49 billion forints, will be reduced to 10 billion forints, while the state household deficit will shrink to 3 billion forints. Original calculations for 1990 showed a \$550 million deficit in the convertible currency balance of payments (originally the IMF figured a \$400 million deficit, while the government's original calculations called for a deficit of between \$750 million and \$800 million). At the same time the government intends to reduce its export surplus of 900 million rubles to 100 million rubles.

In the end, the press conference conveyed the impression that the Nemeth administration was trying to obtain assurances for tolerance during its final 100 days in office at the summit, not unlike the honeymoon period to which governments are entitled during their first 100 days. It appears that by and large the Nemeth government has accomplished this. One cannot tell, of course, to what extent the words uttered in the conference room supported or perhaps denied this semblance: The Hungarian-Hungarian summit was conducted behind closed doors to the end.

### Results of Referendum Outlined by Counties

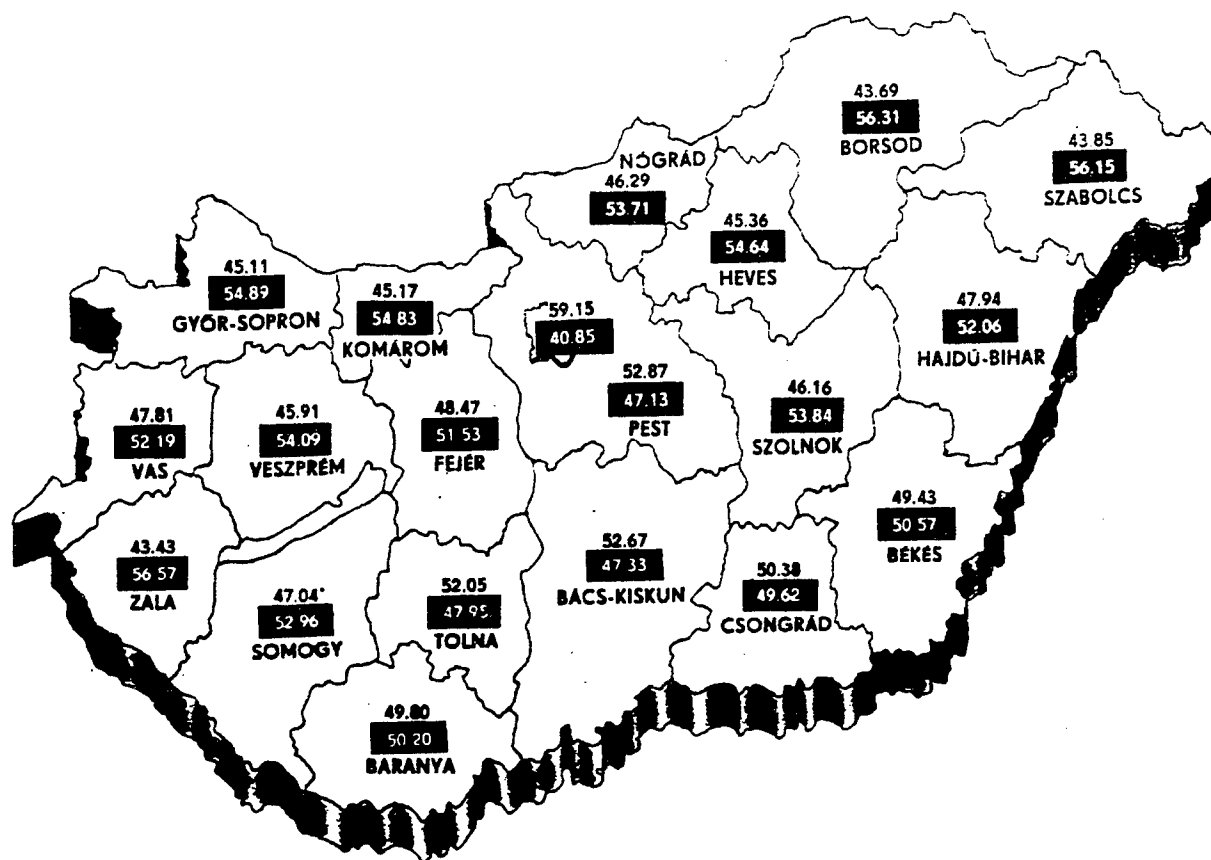
25000566E Budapest NEPSZABADSAG in Hungarian 30 Nov 89 pp 1, 5

[Article by Lajos Bodnar: "Budapest Leads With 'Yes' Votes, Zala County with 'No' Votes"]

[Text] The National Election Committee reported the official final results of the referendum in the Parliament building at 6:00 PM yesterday. According to this report the national referendum was valid with regard to all four questions asked, and it produced results. Of the 7,824,775 eligible voters 4,541,077, or 58.03 percent, took part in the referendum. On the first question an affirmative vote was cast by 50.07 percent of the voting citizens; those who voted in the negative represented 49.93 of the votes, and remained in the minority. This means that the vote count on the first question is even closer than was earlier believed. The difference in terms of the number of votes is 6,101. Consistent with preliminary information, the number of affirmative votes cast in response to the second and third questions exceeded 95 percent, and in regard to the fourth question it almost reached the 95 percent level.

As Pal Kara, National Election Committee secretary, said, from the 11,007 voting districts there were 78 in which a total of 512 voting citizens cast their ballot without the legally prescribed verification, outside of their places of

## Distribution of Responses to the First Question in Budapest and in the Counties (in percentages)



Numbers in black fields show the ratio of 'no' votes.

permanent residence. In five instances election committees issued a second ballot form to replace incorrectly completed ballot forms already placed in ballot boxes, at the request of the voting citizens. This was contrary to law. In one voting district a person not eligible to vote cast his ballot. The National Election Committee recognized the fact that the law had been violated and voided the votes cast. This action, however, bears no substantive influence on the outcome of the referendum.

Andras Kery, State Population Registry Office director, said that the level of accuracy by which voting citizens are recorded meets the legal requirements. Mechanized voter lists were corrected by local councils. This reduced the number of eligible voters by 70,018. However, the number of eligible voters increased on election day by 16,733; due to changes in residence 23,314 voters cast their ballots without verification.

At the press conference Interior State Secretary Zoltan Gal assessed the work from the standpoint of state tasks related to the popular referendum.

"The state apparatus performed in a neutral and legitimate manner, even though some problems arose as a

result of the inaccuracy of the records and the backwardness of the infrastructure. It was partly due to this fact that the announcement of the official final results was delayed." The state secretary also said that the budget's share of financing the costs of the popular referendum remained somewhat below 200 million forints. From among the lessons to be learned he stressed the fact that a code of government ethics must be developed as soon as possible, and the laws pertaining to the popular vote must be revised on the basis of experience gained.

According to the final, official results, in response to Question 1 the largest proportion of 'yes' votes was cast in Budapest: 59.15 percent or more than 500,000 votes. As can be seen on the map, Tolna, Pest, Csongrad, and Bacs-Kiskun counties also voted in the affirmative in response to Question 1. In the rest of the counties the 'no' votes were in the majority. On a national scale, a total of 2,151,926 voters voted in the affirmative to Question 1. Zala county is leading with the number of negative votes cast in regard to Question 1. Light was shed on irregularities that took place in the 95th voting district of Debrecen. According to information received

by the Committee, 127 votes were changed to read 'yes' and were placed into the ballot box. The case is still being investigated.

Several journalists at the press conference probed the illegal withholding, the "secret treatment" of detailed results concerning the referendum, and the reasons for the subsequent leaks. The contradictory responses revealed that not only the election committee but also the interior state secretary accused of withholding information had learned of the advancement of 'yes' votes from the radio. Nevertheless, once again the press did not receive an answer to the question of how the radio was able to report the final results of the referendum with near accuracy, if neither the election office at the Interior Ministry, nor the State Population Registry Office, nor the National Election Committee had released the information prior to the appropriate time.

### **Countryside Seen Getting Short Shrift From Budapest**

*90EC0133A Helsinki HELSINGIN SANOMAT in Finnish 13 Nov 89 p 24*

[Article by Ferenc Bodor, who is employed as the director of a gallery at the Hungarian Academy of Handicrafts and Design and is also familiar with folk art problems: "Budapest Thinking Dominates Hungary; Rural Areas Hope That This Is Not Forgotten in Turmoil of Wave of Political Reform"]

[Text] Six months ago some 100 organizations founded the Hungarian Cultural Association in Hungary. It attaches importance to activities at the grass-roots level in a situation in which changes in the social and political systems are of concern to many people.

"We Hungarians can only hope that the changes that are in progress will introduce genuine values, and that the old values don't disappear when the centrally administered, bureaucratic Ministry of Culture sinks like the Titanic," Hungarian Ferenc Bodor writes.

In an article written for HELSINGIN SANOMAT, he describes how strongly influenced by Budapest life in Hungary is. The article is actually an appeal to consider the rural viewpoint now that political reforms are really beginning in Hungary:

Public opinion in Hungary—and not only in the capital—maintains that everything that happens in the rural areas is provincial and of less value. Rural problems are very far from the mainstream of present-day political life in Budapest.

All eyes are turned toward Budapest; the capital is the yardstick and sets the example. Budapest dictates fashion in all sectors. Budapest has the money.

The Hungarian countryside is much farther from glittering Budapest than the capital is from the shops of Vienna or the America that is marketed in Hollywood

films. Rural Hungary is remote not only in terms of thinking and ideas, but also in geographical isolation.

Rail links are not good enough, and trains are slow. Fuel and train and bus tickets are expensive. Several small rail lines were discontinued during the past decade, despite resistance on the part of the local inhabitants.

There are many problems in connection with agricultural production, the distribution of products, and the pricing system. Middlemen who supply products operate like a mafia and really rob farmers blind.

### **Power of the Word**

In Hungary there are good universities and a few particularly effective research centers. The libraries are good. Good literary journals and interesting and very liberal dailies appear in the country—but they are provincial.

The word "provincial" has a negative ring. Just-graduated young people do not want to work in rural areas. Actors at a theater located in an eastern part of Hungary are of the opinion that they live like outcasts, and they hang on to their apartments in Budapest in the hope that they can somehow wangle themselves back to the capital.

In the cities, people can enjoy all the fruits of Central European civilization, like central heating, working public transportation, fairly well-stocked shops, and theaters, but, all this notwithstanding, the city dwellers are still peasants deep down.

About 80 percent of all Hungarians live in rural areas. Roughly 100 of Hungary's approximately 3,000 villages and cities obtain 80 percent of all investments. The capital always forgets the countryside, but after a time it rediscovers it, smiling broadly.

### **Villages of South Are Dying**

Hungary's rural problems vary by region. Especially in the western part of the country and the areas surrounding Budapest, there are affluent areas, but the problems of the outlying districts are serious and demand quick solutions.

The villages of southern Hungary are slowly dying. Only older people are left in them because the young ones have fled the cooperative farms for the cities.

The Gypsy problem is a very serious one, especially in the country's border districts, in the east, the north, and the south. Integration of this ethnic minority, which lives under deplorable conditions, into the society will be one of the next decade's most complicated tasks.

What could be of help not only to the Gypsies, but to everyone?

There are several national research teams, formed by the state in Hungary, that are trying to find solutions. Many conferences have been organized to clarify regional

policy. In Hungary there is a newspaper called A FALU (The Village) that has delved into rural problems.

Solutions have been proposed for many social, economic, and cultural problems. The following is an example:

About 10 years ago, architects and Ministry of Culture experts declared that the villages were dying because there were no cultural centers in them. Farmers have only two places where they can get together, the local tavern and the church.

#### Village Soul Destroyed

This is only one indication of the terrible intellectual and spiritual destruction that has been wrought over the past 40 years. The traditional village structure and its social network have been destroyed.

Local administration has been discontinued in the small villages, schools have closed, and the doctor and the priest have moved away. Central administration officials have flatly refused to build homes in many hundreds of villages that were condemned to die because they "were incapable of developing themselves."

So, it is no wonder that villagers have lost faith. They say: "Here come the fine gentlemen from the capital again to tell us what we ought to do. No, thanks!" And so they go home and stare at the television set.

#### Anti-Semitism: MDF Files Defamation Suit Against Ivan Berend

25000566F Budapest NEPSZABADSAG in Hungarian  
22 Nov 89 p 5

[Unattributed article: "The Charge: Defamation"]

[Text] The Veszprem organization of the Hungarian Democratic Forum [MDF] has initiated a criminal proceeding against Ivan Berend, chairman of the Hungarian Academy of Sciences, at Budapest Central District Court. The charge: defamation.

As MDF county leader Dr. Balazs Horvath was cited in yesterday's VESZPREMI NAPLO, the 20 November issue of THE NEW YORK TIMES published in the United States presents Ivan Berend's evaluation of the Hungarian political situation. In it Berend states that he regards the MDF as a party with an anti-Semitic outlook. Among other matters Berend said that "at the MDF they are maintaining records of Jews in leading positions and in the mass communications media, and claim that Jews destroy Hungarian culture." The Veszprem organization of the MDF regards these accusations as solid slander. Taking advantage of the opportunity to act independently, but with the agreement of the MDF national leadership, Horvath asked the court to convict the chairman of the Academy for making slanderous statements to the greater public, statements that have caused significant harm.

## POLAND

#### Christian-National Union Chairman on Party's Genesis

90EP0186A Warsaw TYGODNIK SOLIDARNOSC in Polish 17 Nov 89 pp 1, 8

[Interview with Wieslaw Chrzanowski, president, Christian-National Union by Krzysztof Wyszowski: "A Return of the National Democratic Party?"; date and place not given; first paragraph is TYGODNIK SOLIDARNOSC introduction]

[Text] On 28 October, the Founding Congress of the Christian-National Union [ZChN] was held. The following is an interview with Prof. Wieslaw Chrzanowski, chairman of the ZChN.

[TYGODNIK SOLIDARNOSC] You are a well-known figure in Polish political life. It is common knowledge that you never made deals or arrangements with the communists.

[Chrzanowski] The ZChN program likewise includes the premise that binds it to the 1944-45 era movement of opposition to the system: namely, that it excludes from its heritage all the traditions of groups that favored coming to an understanding with the communists. We occupy the position that we believe was represented by Primate Wyszynski—the resistance of public opinion, a fundamental social attitude of not only a political, but also a moral nature exerts an influence even on a totalitarian system.

[TYGODNIK SOLIDARNOSC] To be sure. But perhaps we can prevail upon you to tell us a little more about yourself.

[Chrzanowski] I began my political activity in 1941, short of 17 years of age, by joining the Youth of Great Poland [MWP]. Later, as a member of the National Military Organization [NOW], I was in the AK [Home Army] and participated in the Warsaw uprising. After the war, I was connected with the underground activity of the period. In 1945 I once again worked in Krakow, at the editorial offices of MLODA POLSKA and later became editor of WSZECHPOLAK. At the close of 1945, I started being active in the youth groups of the Labor Party [SP]. I was the chairman of the Warsaw region. In March 1946, we created the Christian Youth Union [CZM]. I became the president of its board. That ended fast. I was arrested and then released. I was imprisoned twice at that time, for I succeeded between the two arrests in convincing Security that I was not in my right mind and so they released me. Then came the amnesty.

We had a youth column in the Catholic newspaper of that time, the TYGODNIK WARSZAWSKI. In the fall of 1948, we were involved in a court case. I was the principal defendant. We were accused of attempting to overthrow the system by force through the creation of a

mass movement of a Catholic-nationalist character and with the help of the American army. I spent about 6 years in prison.

In 1956, within the framework of the Catholic club movement, we created a discussion club called "Start" but within a few months we were forbidden to act. At that time I already was in contact with several youth groups and one of these got into a mess. The result was that (I was in the middle of taking law exams at the time) for 21 years the minister of justice vetoed my admission to the legal profession as a lawyer. At the outset, I worked as a legal advisor, later I directed the legal affairs of a housing cooperative. When it became impossible for me to accept certain things any longer, I went over to teaching, but in an institute, since work with youth was forbidden to me. Not until 1981 did the University of Warsaw invite me, upon a recommendation from the Independent Association of University Students [NZS] besides. With the imposition of martial law, the minister cancelled my job. But I was given permission to accept a chair at the Catholic University of Lublin [KUL].

During the entire post-1960 period, I was subjected to annoyance and interrogations, but it was not a period of terror. The method then was to create a vacuum around a person.

During the millenium period, I was on the information team of Primate Wyszynski. For the most part, members of the team originated in the prewar Rebirth movement. The Primate met with us regularly, once a quarter, and assigned us substantial materials and correspondence with the authorities.

[TYGODNIK SOLIDARNOSC] But the Catholics organized around the KIK's [Clubs of Catholic Intellectuals] found it possible to act. Why were you not a part of this crowd?

[Chrzanowski] In our Start Club, we were in the framework of the club movement, but in contradistinction to the socialist Catholic minimalism that dominated in the club movement, we proclaimed our maximalism, referring to what Milosz said in his "Captive Mind." The year 1956, perhaps, broke the captivity of the mind, but it did not break the captivity of the will. We believed that it was necessary to take up systemic problems independently, starting out from different premises, for example, while WIEZ [Link] represented an attitude of Christian influence on socialism and the creation of something like a socialism with a human face. TYGODNIK POWSZECHNY itself created this line, but we never accepted socialism during this entire period. For that reason, we and the club movement were distant. We also stood apart from one another because of our differing attitudes toward national values.

[TYGODNIK SOLIDARNOSC] Given your passion for political activity, how was it possible to live so many years disconnected from public political life?

[Chrzanowski] It was hard. I had a period of very active political life from age 17 to age 24. Later there were brief moments and only after 1975 was there a return to life. The main part of my life I was active within narrow limits, expressing my opinion.

[TYGODNIK SOLIDARNOSC] Without Primate Wyszynski and your contact with him, would you have been able to endure?

[Chrzanowski] It would certainly have been very difficult, but the strategy of the Primate, the strategy behind the big celebrations, big demonstrations—the Millennium, all of which had, besides their religious purpose, a great social significance, provided a sense of power.

[TYGODNIK SOLIDARNOSC] What were your first connections with Solidarity?

[Chrzanowski] In the Gdansk Shipyard, I wrote the union statute, and later there was the creation of the Mazowsze region of the union. I was at the first meetings at the Ursus plant. I was once again assigned to write the statute. We wrote it at night at a worker's apartment above the Praha bar. Together with Olszewski, I got close to Bujak and that whole group. That was one line. At the same time, Switon and Sila-Nowicki drew me into the affair of helping the Katowice mill. We also turned for help to Kurowski and Piotr Andrzejewski. We worked on the understanding until 11 September 1980. Then there was the final writing of the text of the statute with Geremek, Mazowiecki, etc., on 17 September.

[TYGODNIK SOLIDARNOSC] That was in Gdansk.

[Chrzanowski] Yes. When it reached the court case stage, they turned to me for aid and I wrote the response to the attack by Koscielniak, and with Olszewski I represented the union in court. We represented it at the first echelon, I wrote a revision and then we went to the second echelon.

Then a team was appointed—the Program Council under the Center for Socioprofessional Work. I was under Geremek together with Andrzej Tymowski, its deputy chairman.

[TYGODNIK SOLIDARNOSC] Perhaps the fact that you were a background player tended to make you unfamiliar to Walesa. Is that why you found yourself at the roundtable discussions?

[Chrzanowski] No. Participation in the roundtable talks was proposed to me. Mr Bronislaw Geremek proposed the team for association matters to me because they knew that I had been the church's representative in setting up the project. Later through Mazowiecki I was informed that I was being proposed for the main table. But I did not accept. I was only to have been appointed to firm up certain matters. I found the composition of the Citizens Committee [KO] unsatisfactory. I could accept that some group had to direct matters in it, but, in this case, the group was anonymous in character, at least

as far as the broader masses were concerned. The invitation to serve there makes one a political person. For me this represents the continuation of the forms of bygone times.

[TYGODNIK SOLIDARNOSC] Let us talk about the union. What are its inspirations?

[Chrzanowski] In our declaration, we define ourselves as a new political formation drawing selectively upon the tradition of the independence movement (Pilsudskian, if I may say so) as a national movement, the Christian-Democratic movement, and Christian-nationalist currents in the people's movement (by that we mean the Witos line as well as the nationalist elements of the worker's movement). Of course, that does not mean that we seek some kind of legalistic rights to continue existing.

[TYGODNIK SOLIDARNOSC] Why do you not just say national democracy and be done with it?

[Chrzanowski] National democracy is, after all, a national movement. After the war, national democracy became a term to which propaganda gave a negative coloring. For over 40 years, this system has been doing its utmost to render the concept of national democracy suspect. At various junctures, the revisionist movement changed its positions (for example, with regard to the church), but it never changed its position vis a vis national democracy. My impression is that the revisionist movement's stubbornness in this regard was made easier later by the tendency to assign to the nationalist camp the later appearing representatives of extremist currents in the nationalist movement, currents which spring from the work of Jędrzej Giertych.

[TYGODNIK SOLIDARNOSC] Before the war, the national movement was the most numerous organization. Do you people aspire to such a size?

[Chrzanowski] I would not like to prophesy for fear of casting a spell. Unquestionably, we are disposed to widening the circle of our membership. A union is not supposed to be a cadre-type organization. We do not aim to include masses of casual members, but we aspire to be an organization of a broader scope. We set certain personal requirements, but not in order to hamper our development. We realize that after the experiences of the PRL, there is no massive rush throughout society to join up at this time. The numbers achieved by the PZPR and the allied parties emanated from the fact that certain privileges were tied in with membership. We do not think that our group is able to guarantee any sort of privileges.

[TYGODNIK SOLIDARNOSC] And what of the question of representing the state in political life?

[Chrzanowski] We aim to participate in elections, naturally when the organization is strong enough. We believe that a proportional system ought to be introduced in Poland. Unless this is done, it will be impossible to manifest the real face of the currents and directions that

exist in society. At present, only artificial oppositions exist. This was understandable in the spring election. On the other hand, certain tendencies or the pressure to retain such a model are, in my opinion, attempts to restrict further the political sovereignty of society.

[TYGODNIK SOLIDARNOSC] Has the creation of the union filled in the political geography of Poland? The alliance between the left wing of Solidarity and the reform wing of the PZPR can create a social democratic union. There is the center with the liberals, the "Dean" and the people's movement which is being reborn. The union creates the right...

[Chrzanowski] It is hard to guess how things will really shape up. This is especially so in that in the popular movement, for example, there are very many such elements. The social democratic union can be a major force, for it will be the joining of party deserters with the reform wing which now wishes to free itself of its hump. Many people will become members, for they wish to convince themselves internally that they yielded to pressure while they always wanted to be different. It is an issue of saving face and position. I believe that other organizations as well may try to build some sort of political formations, economic potential, technical potential, publications, locations and the like. It is a very attractive thing. Certainly, if one is tied in with some sort of current it is easier to start. That is why the particular directions may be duplicated on purpose—if two or three very similar formations are created, disorientation sets in.

[TYGODNIK SOLIDARNOSC] How will relations shape up between the union and the left and center?

[Chrzanowski] In general, we will premise ourselves upon the assumption of a parliamentary type of game—that of seeking understanding. Naturally, I am speaking not of ideological understandings, but understandings to resolve specific situations.

[TYGODNIK SOLIDARNOSC] You have the confidence and support of the church.

[Chrzanowski] I hope so. We would like very much to have that confidence, but confidence is one thing and ties and interdependencies emanating from mutual obligations are another.

[TYGODNIK SOLIDARNOSC] What will your relations be with Solidarity?

[Chrzanowski] At this time it is difficult to guess. It depends upon how Solidarity will be.

[TYGODNIK SOLIDARNOSC] And how would you like it to be?

[Chrzanowski] We would like it to become a trade union in the strict sense at the point at which the political currents take shape. In my own private view, the present structure grants a fundamental superiority to large plants, while small plants are in a situation which is incomparably worse.



[TYGODNIK SOLIDARNOSC] Then should the branch-occupational structure develop from the territorial structure?

[Chrzanowski] In my opinion, yes. I do not maintain that territorial structures should be totally abandoned, but that the proportions must be reversed.

[TYGODNIK SOLIDARNOSC] We have a situation in which Solidarity is the mother of democracy in Poland and Walesa is the leader of all of society.

[Chrzanowski] Walesa has said several times that the creation of political pluralism is a necessary phenomenon. This is a very important thing, because in some spheres of citizens committees we have many statements that the tendency to create different movements and allied parties is something of the past, that a unified party on the Solidarity base should arise. We believe that such a party would be an abuse of society's trust, since Solidarity is a movement with various ideological currents. At the moment of opposition to authority, the joint action was a necessity, but one of the groups cannot absorb the entire tradition. We also believe that we emanate from Solidarity, but we do not maintain that we have exclusive participation.

## GERMAN DEMOCRATIC REPUBLIC

## Ways To Increase Efficiency in Rehabilitating, Modernizing

90EG0069A East Berlin

WIRTSCHAFTSWISSENSCHAFT in German

Nov 89 No 11 pp 1634-1646

[Article by Peter Kube, Dr. Economics, construction engineer, graduate, SED [Socialist Unity Party of Germany] Academy of Social Sciences: "Ways To Increase Efficiency in Repairing and Modernizing Old Housing Stock"]

[Text] "When by 1990 we have solved the housing problem as a central item in our social program, we will further promote social housing construction, we will put even more emphasis on improving the quality of housing."<sup>1</sup> By 1990, some 2.2 million housing units will have been built in the

GDR (since 1971). That represents 30.7 percent of planned housing stock at that time. At the same time, 1.3 million housing units will have been modernized. That is 36 percent of the 3.3 million housing units built before 1945. Thus, in a period of just 20 years we will have made significant improvements in the living conditions of two-thirds of the population. Already today each individual has at his disposal an average of 26.6 square meters of housing and 3.4 square meters of gross surface in social institutions. With 417 housing units per 1,000 residents, the GDR stands up very well in international comparisons.<sup>2</sup> All this means that we can and must put increasing emphasis on primarily intensive reproduction—i.e., the maintenance and modernization but also the replacement of existing housing stock—in order to provide the remaining 14 percent of housing units with bath/shower, provide the remaining 21 percent with inside toilets,<sup>3</sup> and gradually provide all housing with modern heating.

Table 1. Structure of Housing Stock in the GDR  
(in percent)

Year of construction	Year of Modification			
	1984		1990	
	Traditional <sup>a</sup>	Industrial <sup>b</sup>	Traditional <sup>a</sup>	Industrial <sup>b</sup>
	Multifamily units			
1870-1918	26.3		20.7	30.7
1919-45	10.2		8.3	
Since 1945	5.6	22.1	5.4	
	1 and 2 family units			
1870-1918	18.3		16.8	30.7
1919-45	10.0		9.2	
Since 1945	5.5		6.9	
Total: (2 percent not assignable)	75.9	22.1	67.3	

<sup>a</sup>Handwork, brick, gas cement

<sup>b</sup>Block, plate, skeleton

Source: H. Schulze/H. Hilliges, "Systematisierte Informationen ueber typische Wohngebaeude der DDR" [Systematized Information on Typical Residential Buildings in the GDR], Construction Academy of the GDR, Institute for Residential and Social Construction, Oct 1985, annex 6c, unpublished.

Although it is increasingly necessary and possible, to different degrees in different areas, to replace substandard housing, at least 3.1 million units—in other words the majority of existing traditional-built units—will still be in use in the year 2000 and beyond. Thus, in meeting citizens' housing needs, the maintenance (including rehabilitation of new construction) and modernization of multifamily units will be at least as important as replacement construction. Already today every new housing unit constructed leaves us with an older unit that is increasingly hard to rent because it has not been modernized.

The accelerated reduction in the gap between old and new housing involves not just further upgrading of sanitary facilities but also making the physical shell (including basement and roof) watertight, increasingly soundproof, and above all heat-insulated. Besides keeping the housing usable and the exterior attractive, it is necessary to provide

efficient heating and better insulation so as to reduce energy costs by a total of 30-50 percent.

Furthermore, rehabilitation and modernization demand and promote above all—not least for the sake of the attractiveness of existing urban structures—the time- and resource-saving proximity of work and residence and of social and technical infrastructure, the most rational possible use of available urban area by consistent inner-city building, and the stabilization of settlement structures.<sup>4</sup> The acceleration in the pace, extent, and quality of rehabilitation and modernization can and must lead to many sorts of citizens' initiatives. At the same time, we must also manage and operate available stock far more efficiently.

Whether housing that is in itself worth modernizing can actually be modernized depends in the final analysis on the productivity and efficiency of the rehabilitation and

modernization processes. Here the traditional skilled worker style of maintenance and modernization will continue to dominate the scene for a long time to come. At the same time, the use of data processing technology offers us totally new possibilities for increasing efficiency, precisely on the basis of traditional skilled work.

### Measurement of Social Efficiency of Modernization Depends Upon the Degree to Which Housing Needs Have Been Met

From the standpoint of implementing the housing construction program and its social goals, modernization has already clearly shown itself an efficient means of reproduction of housing stock. In a short time, modernization has brought many citizens a higher standard of housing using available resources. However, the importance of rehabilitation and modernization as a form of reproduction differs in the various stages of development because it depends on the degree to which housing needs have been met.

1. Given the social policy goal of meeting the needs of every family for housing as fast as possible and therefore of building as much new housing as possible with available economic resources, we have thus far had to minimize both maintenance expenditures and the (one-time) expenditure for modernization or new construction per

unit. In a sense, the delayed maintenance of old housing stock represents an "indirect subsidy" for this. In 1982 the Fourth Plenary of the Central Committee of the SED [Socialist Unity Party of Germany] laid down limits for this and determined that a clear shift toward maintenance was necessary.<sup>5</sup> As a result of the large built-up need for rehabilitation, it has been virtually impossible in modernization efforts to bring expenditure norms and desired utility values into accord.

2. To the degree that we have now almost met our quantitative needs, we must focus more on the reproduction of housing stock through rehabilitation, modernization, and replacement construction. It is now becoming possible to consider replacement construction as an alternative to modernization. This means that in each individual case we must also judge the desirability of modernization from an economic point of view. Here we must compare what housing value we can achieve for how long a period of use with what expenditure by each method. With respect to replacement construction, however, we must also examine whether there is free capacity at the site of the need, what expenditure is needed for reproduction of the prefabrication capacity, and whether new products (housing and building types) exist that can be built in small town or inner-city locations with an adequate or greater utility value. We must take into account the availability of equipment and labor on the site. Merely comparing total costs<sup>6</sup> is therefore not enough.

Table 2.  
Components of, and Percentage of Expenditure during, the Reproduction Cycle of an Industrial-Built Residential Building over 80 Years

Cycle Components	Periodically-Recurring Costs as a Percentage of the Cost of Construction at Each Occurrence		Total Cost Over 80 years
Construction of the building	100	One-time	21
Repairs	1.90-2.25	Every 3 years	11
Rehabilitation	21.9-31.3	Every 25 years	15
Modernization	18.7-26.2	Every 30 years	12
Central heating/hot water	1.69-1.75	Annually	29
Operating costs	0.56-0.63	Annually	10
Demolition	8-10	One-time	2

Source: Calculations based on "Grundlagen zur Entwicklung von Erzeugnissen und Verfahren zur Instandhaltung, Instandsetzung und Modernisierung von Wohnungs- und Gesellschaftsbau nach 1990" [Principles for the Development of Products and Processes for the Repair, Rehabilitation, and Modernization of Residential and Social Construction after 1990], study by the Construction Academy of the GDR, Institute for Residential and Social Construction, March 1987.

3. To the degree that the basic standard for utility value of housing has been met in an area and that existing buildings are safe, dry, warm, and equipped with sanitary facilities, we must focus more on increasing the utility value of housing while minimizing reproduction costs. Such intensive reproduction of housing stock then makes it increasingly necessary and possible to take total cost as the basis for calculations and decisions between the alternatives of modernization and replacement. This involves not just the one-time expenditure for constructing a housing unit—including demolition, recycling, prefabrication, and transport—but also the cost of maintaining and operating it.

The current relationship between construction costs on the one hand and maintenance and operating costs on the other hand (hereafter referred to as "one-time" and "ongoing" costs) is 1:4.2<sup>7</sup> for new housing (estimated useful lifetime of 80 years) and 1:3.3 for modernized housing (remaining useful lifetime of 50 years).<sup>8</sup>

If we look at total costs, we see that the cost of construction (21 percent) is less than operating costs (39 percent) and maintenance costs (38 percent). Of course, we see from the second column in Table 2 that the one-time cost of construction is concentrated—as an absolute sum—as

a single time. In the past this has caused attention to focus primarily on it. To achieve efficient reproduction of housing stock we must above all balance already-met and remaining needs against resources available at the time for "one-time costs." With respect to rehabilitation and modernization we must always decide to what degree it is desirable to spend more money on a smaller number of units over a longer period of time or to work on as many units as possible over a shorter period with smaller one-time expenditures. This decision, however, affects ongoing costs. As a rule, a less thorough rehabilitation results in higher maintenance costs in the future. It becomes more and more important to take ongoing operating and maintenance costs into consideration as an additional criterion of judgement because we can and must judge more by strictly economic criteria (in the narrower sense). This is important not just because it

reduces total costs but also because it increases utility value, since unrestricted usability throughout a unit's useful life is the desired goal for a high housing value.

The Construction Academy of the GDR (Institute for Economics) proposes that reproduction expenditure should be determined on the basis of a unit's remaining useful life and attainable utility value.<sup>9</sup> This method suggests that in the GDR it is reasonable to spend between 21 and 87 percent of the replacement cost to modernize a unit built just after 1945 (25-50 percent of its useful life gone)—given a housing/utility value comparable to that of a new unit and assuming a remaining useful life of at least 15-40 years (see Table 3). This new, relatively simple economic approach is valid for areas where the aforementioned basic standard has not yet been achieved for all housing or where replacement is not an alternative. Otherwise, the housing value factors must be recalculated.

**Table 3.**  
**Marginal Value for Complete Rehabilitation and Modernization**  
**(Percentage of the Cost of Building a Replacement)**

Housing Value	Remaining Useful Life (in Years)					
	15	20	25	30	35	40
1.0	53	64	72	78	83	87
0.9	48	58	65	70	75	78
0.8	42	51	58	62	66	70
0.7	37	45	50	55	58	61
0.6	32	38	43	47	50	52
0.5	27	32	36	39	42	44
0.4	21	26	29	32	33	35

Source: *Diskussionsmaterial der Bauakademie der DDR* [Discussion Material of the Construction Academy of the GDR], unpublished.

Despite significant productivity increases for construction repairs in the 1980's, current requirements (often empirically determined) for simple reproduction are still not being met in most Kreises and extremely large sums need to be spent for modernization. One reason for this is the above-average involvement of auxiliary and secondary processes. Furthermore, the expenditure for primary construction processes not infrequently is double or triple what had been budgeted, because the condition of the building had not been adequately surveyed or because of progressive deterioration as a result of standing empty for a long time.<sup>10</sup> At the same time, we may assume that the primary economic advantage of modernization is that the material, energy, and transport costs for rehabilitation and modernization are significant lower than for new construction. For such economically important raw materials as steel and cement, the costs amount to less than 10 percent [of new construction costs]. If we assume that a housing unit contains heavy construction masses weighing around 80 tons, then the decision to demolish and construct a replacement entails the transport of 160 tons of heavy construction materials for each unit, with the corresponding consumption of cement, steel, diesel fuel, and raw materials, and with that additional use of the road system.<sup>11</sup> On the other hand, labor costs are significantly

higher for rehabilitation and modernization than for new construction. Given the differing structures of expenditures, rehabilitation, and modernization can therefore be efficient even if they do not necessarily achieve the productivity standards of new construction.

If, however, modernization expenditures, measured against total expenditures, sometimes appear higher today than for replacement construction, that makes it all the more urgent to thoroughly exploit all possibilities for increasing labor efficiency in the preparation and execution of rehabilitation and modernization.<sup>12</sup>

In addition to having the responsible legal authorities make a precise inventory of buildings and their condition and keeping those inventories updated in machine-readable building documents, in addition to reducing the amount of building repairs left undone from the past by increased replacement construction, the decisive issue in the efficient reproduction of housing stock, in bringing older units closer and closer to the standards of current construction, will therefore be to raise labor productivity and efficiency in the modernization and rehabilitation processes (this is also true for new buildings).

Calculations carried out by the Construction Academy of the GDR as well as my own studies show that labor productivity in rehabilitation and modernization will just about have to double in the next 10 years. It will be clear then that we are not talking simply about a linear extrapolation of productivity trends in the Kreis-level construction sector. We need new methods based above all on science and technology, innovations comparable to the industrialization of new construction.

**The Industrial-Style Organization of Skilled Construction Work Is the Basis for Technical-Technological Development in Rehabilitation and Modernization Processes**

The industrialization of construction involves peculiarities unique to it; these are due to the construction process or to object of the work.

1. Construction projects are site-specific. Therefore labor and equipment must be moved to and through the object of the work—the building. (“Building is transporting!”) A lack of mobility long delayed—and to a significant degree still does—mechanization, because the use of large and small machines in buildings required a mobile, light driving force. This requirement was not really met until the invention of the internal combustion engine and electrical motor. On the other hand, buildings cannot be brought together at will in order to close the technological pores in the labor process by reducing travel time. Because increasing inner-city construction causes the number of sites to increase and the size of each site to decrease, nonproductive transport costs and travel times increase, which does not make it any easier to organize a continuous production flow.

2. Construction projects are usually “to order.” We have made major progress in the rational structuring of construction processes by working not from the uniqueness of each given construction project but from the nature of construction processes. But even when we have achieved series production of buildings, as in new housing construction, each project is still unique to some degree. Thus, in each case there must be adjustments to fit the specific location (construction site conditions) and buildings must fit into the urban ensemble. Despite necessary standardization and some reusable plans, inner-city housing, for instance, still very much consists of on-off projects or of very small series production—that is very obvious in the facades. Only to a limited extent can it be produced “for inventory,” it cannot be “stored away.”

3. Construction processes are very weather-dependent. This creates additional physical problems for people and machinery as well as unpredictability and additional production costs. This weather-dependence results in increased physical deterioration of equipment which is many times greater than the moral deterioration. This requires the development of “combinable installations” and equipment where a “basic element” can be equipped with various additional interchangeable elements. This will also help deal with the fact that in inner-city housing

construction there is little space available and that in rehabilitation and modernization there is greater change and a greater multiplicity of operations. On the other hand, we need robust, productive “single-purpose” equipment, for instance, to mount a few, large prefabricated parts and shorten construction time so as to reduce weather problems. This permits us to work around the clock and in winter, although it entails additional expenditures for energy, highly processed raw materials, and certain adjustments—i.e., greater flexibility—in the work force.

4. Housing is a very long-lived consumption material. The cost of building housing under Socialist production relationships is not amortized, its value cannot be transferred to any product. However, housing shares with industrial buildings—as a mediated labor material, “locus standi,”<sup>13</sup> building shell, general requirement or precondition for the process of meeting housing needs—the fact that it deteriorates “piece by piece.” This entails ongoing expenditures for maintenance, to which is added the cost of operating the housing. These ongoing maintenance and operating expenditures depend to a significant degree on how maintainable a building is, how modernizable. In the future these qualities must be built right into new construction or rehabilitation plans in order to make modernization and maintenance economically more attractive in the future.

Other factors affecting the rehabilitation and modernization of older buildings are:

- the multiplicity of building types and their varying state of repair;
- the particular heterogeneity of the subprocesses;
- the use of many different materials and the attendant varying types of processing and construction involved;
- restricted production conditions and working spaces;
- the fact that renters sometimes remain in their apartments;
- serious noise and dirt problems in closed spaces;
- the fact that the size of openings and the strength of the workers limits the size and weight of building materials, prefabricated elements, and equipment.

Rehabilitation and modernization is work in and on something that already exists. Therefore we cannot use the same methods as in the industrialization of new construction to increase productivity and efficiency. That was marked by the mechanization of physical labor in preliminary assembly and in stationary, partially automated large-series prefabrication, by which labor processes were transferred to machines. With high-quality finished parts and transport concrete we were able in part to eliminate labor-intensive site-unique work and the linkage of production to the actual construction site. In particular, labor-intensive and skill-intensive on-site processes were eliminated by material and constructional integration or substitution.

This sort of industrialization using large-series prefabrication is very well suited for "mass" production until such time as quantitative needs have been satisfied. But we increasingly need efficient small- and medium-series industrial production of many sorts of maintainable elements that are interchangeable and can be replaced with a minimum of difficulty. Large-scale interchangeable work in maintenance and modernization processes—i.e., joining together mass-produced elements from various categories without adaptation and further processing—has been proved effective in over 20 years of international experiments. However, in order to be efficient, it first requires a certain volume and thus a repeatability of similar renewal processes. Obviously, in order to be economical, this method also needs built-in maintainability (standardization and nondestructive replaceability) in building elements and working parts. Mass interchangeable construction also requires efficient processing of the replaced parts, both to reduce waste and pollution and as a precondition for further prefabrication—in other words, we need closed circuits.

To create and maintain the necessary recycling and prefabrication facilities and master the ensuing transportation and mechanization problems, however, we need to make significant investments. To a considerable degree the unmet needs for rapid rehabilitation and modernization still limit such solutions, which require extraordinarily high start-up funds—in other words, interchangeable construction will not soon dominate modernization work in existing older buildings.

Because even today's new buildings only possess such built-in replaceability of parts to a limited degree, skilled, site-specific work will clearly remain the basis for rehabilitation and modernization in the immediate future—and not just for older buildings. Of course we must not forget here that 1) increasing flexibility in prefabrication, which is also necessary to advance the industrialization of new construction, 2) the opportunity to reduce materials costs by creating a recycling capacity, and 3) the natural limitation on the labor force all will make interchangeable construction more and more attractive and also necessary in the future.

Today, however, what is important is to take advantage of the opportunities to increase efficiency currently offered by modern technology and thus to open up new paths to workers' creativity and flexibility in order to cope with the multiplicity, changeability, and occasional uncertainty of the tasks involved in rehabilitation and modernization. This linkage can produce major gains in efficiency.

Besides the worker's virtuosity—his multiple skills—the productivity and efficiency of traditional construction depends to a large degree on the quality of the worker's equipment (mechanization), on the characteristics, quality, and well-designed prefabrication of the building materials, and on cooperation. All of these factors must

be brought consciously and comprehensively into play in order to increase the efficiency of the construction process.

In contrast to new construction, rehabilitation, and modernization always mean just doing work on something (what exists is merely modified, put back into its former condition, or its utility value increased but nothing totally new is ever created). This means that for the present the order and rhythmicity of the work are less objectively determined than in the case of new construction. In the latter, the cooperation of all the elements in the work and thus the order of the subtasks follow the strict logic of technical necessity.

In rehabilitation and modernization, however, the order is additionally determined by the nature and condition of the existing building and by regional and other conditions in all their multiplicity, mutual interconnection, and also uncertainty. This means that there is a high likelihood that the work will be interrupted by unpredictable new conditions that arise suddenly and also by discipline violations (which are only to a limited degree ascertainable)—i.e., by subjective influences on continuity.

Of course in traditional skilled rehabilitation and modernization work, there was a certain continuity insofar as it was executed by a single worker or by a few workers in succession. However, in order to increase labor productivity and reduce the time required to do the job, we need to:

- simultaneously deploy a large number of workers from the same trade on the same building;
- further intensify the division of labor, specialization, and cooperation between specialties.

Under these conditions it becomes increasingly important to achieve the deliberate spatial and temporal arrangement of all the tasks needing to be done in a continuous process—continuity here refers to the deployment of workers, labor materials, and equipment in the rehabilitation and modernization processes.

From the standpoint of reserves of efficiency—but not as compensation for inadequate mechanization—we thus find that today a new quality of "intellectual understanding" of the processes, the improved preparation and organization of the work is a decisive starting point for achieving the necessary increase in productivity. The existing technological lines, which make it possible to carry out traditional skilled construction work cooperatively, are the starting point here.

Although they have decreased in number and in percentage of time spent productively since 1985, although fewer than 10 percent of the production workers in the Kreis-level construction sector are currently employed in them, in 70 percent of the product lines total productivity has increased significantly. On the other hand, studies have shown that in the Roof Technological Lines alone, at least 30 percent of their time was idle time.

That shows the large reserves that can be tapped through shifting to work in technological lines on suitable objects. At the same time, the volume of selective rehabilitation, which cannot be undertaken using technological lines, is also growing. Consequently, we need to efficiently organize work both for overall restructuring (primarily in technological lines) and also for these constantly varying tasks. Through systematization and simplification, repeatability, and specialization of labor processes and tasks, leading construction repair enterprises in the GDR have already rationalized their organization to a high degree.

In the future, however, their organization will have to help ensure high efficiency in the execution of tasks of far greater variety and mutual interconnection in very tight, increasingly inhabited spaces and (therefore) also very quickly. We see this for instance from the necessity of dealing with all-around restructuring areas, i.e., bringing not only housing but also stores, nondisruptive industry, etc., directly into the modernization process. Here the selectivity of modernization tasks will make high demands on a rational, flexible organization. This means that we will need an organization that is capable of handling not only more or less similar, repetitive modernization tasks of a single type but also—and, in fact, increasingly—tasks of a frequently changing multiplicity which yet must be executed with greater efficiency than leading Kreis construction enterprises achieve today.

The fundamental issue then is to develop an organization, planning, and economic understanding of the reproduction process that will permit both further simplification and variety in the specific forms in efficient rehabilitation and modernization; an organization that will go ahead with standardization but in a way that permits it to be combined with variability, multiplicity, quasi-one-off production. Modern data-processing technology permits us—even under conditions of variability and multiplicity—to take simplification further.

What is unique about data-processing is that on the one hand it possesses an integrating, simplifying, standardizing, objectively analytical effect. At the same time it is a labor resource that is flexible and multipurpose—i.e., modifiable and adaptable—in whatever field or task it is used in. It is a force for simplification and universality of industrial processes but it also offers the opportunity to adapt to concrete conditions and individual tasks, to modify standardized solutions, and thus in a high degree to affect the continuity of the construction process. Our task therefore must be:

1. to press on with simplification so far as the variety in the maintenance of older buildings permits;
2. to realize the maximum variability and individuality with what we have simplified;
3. to take the worker's creativity into account in the objective uncertainty of the stock (in the older buildings now needing to be modernized) and the rehabilitation and modernization process.

With computer support, we can objectively organize the skilled worker's work. This means coming as close as possible to the most rational choice as to the ordering and technological supply of the cooperating groups and individual workers, to predictability, and to a more realistic determination of the relationship between construction tasks and available construction capacity.

Given that today certain intellectual labor can be mechanized at relatively low cost—a cost moreover that is largely of a nonmaterial nature—we can significantly increase the efficiency and decrease the idle time of manpower at the existing or gradually developing level of mechanization through better organization and planned deployment appropriate to needs.

The goal of the industrial-style organization of skilled work is therefore to achieve a continuing production process and the reproduction of a certain utility value with given characteristics in a given period, in other words with greater certainty and plannability in process results. Continuity in the cooperative process, assembly line production, and selective and serial production can thereby also become part of rehabilitation and modernization.

#### **On Tasks and Goals in Introducing Modern Data-Processing Technology Into the Kreis-Level Construction Sector**

First of all, through suitable software in the Kreis-level construction sector we must efficiently bring together the following contrary and in part contradictory tendencies and characteristics:

- We must resolve the contradiction between the improved efficiency that comes with any simplification and the multiplicity of current modernization tasks;
- Along with the undoubtedly necessary long-term preparation of modernization tasks and the ensuing differentiation of capacities we must also ensure our ability to react rapidly to the unexpected—for instance in material acquisition but also to the uncertainties about the condition of the building stock;
- The organization is based both on the further specialization of labor in comprehensive modernization efforts and on further developing worker flexibility in selective rehabilitation and modernization on individual sites. In other words, we must objectively organize an organization that allows for workers' creativity and flexibility—i.e., does not perfectionistically specify all processes in advance.

The main goal in using modern data-processing technology in the Kreis-level construction sector is thus first of all to improve the organization of construction work. From this and with the use of 16-bit technology there follow further opportunities to use them in planning and in the Kreis-level construction sector in general. Based on previous experience with the use of data-processing

technology in the Kreis-level construction sector, we can mention the following areas of interest in the effort to ensure a higher level of organization of construction work:

- Production planning and balancing, in order to eliminate serious discrepancies in the balance between below-ground and above-ground work and between financial and material planning and to be able to faster ascertain the consequences of changes in the balance;
- Transport, unloading, and storage processes in order to link the computer-supported information flow with the flow of materials and prefabrication with execution;
- Better understanding of the reproduction process in its entirety, in order to permit control by money through finance/accounting office calculations rather than just by administrative measures, and to ensure better agreement between financial and utility value planning.

First, the use of data-processing technology for planning purposes must continue to be directed at rationalizing the planning process itself. Although at present the expenditure for planning in modernization work is less than in new construction, we must expect that in the future in the Kreis construction enterprise sector too we will see a significant increase in the demands for planning in terms of volume and quality, and this calls for the use of computers for technological planning and for planning in early phases. This is due not least to the fact that the range of construction tasks will further expand with industrial and social construction. Second, if we take into account the fact that great flexibility in planning should make possible precise labor tasking and the flexible organization of construction, in other words that we should gradually aim at the integration and universal use of computers in the entire reproduction process in Kreis construction enterprises, then our task is to implement the appropriate CAD [computer assisted design] solution for small planning units in every Kreis construction enterprise—this also involves the scientific-technical centers in the Kreises—and to build up central and enterprise knowledge and data banks (long-term data, ELN [electronic laboratory numbers] numbers, technical standards, goods specifications, supply terms, norms, prices).

All this underlines the urgent need to use data-processing technology in the Kreis-level construction sector above and beyond what current plans call for. The focus on large enterprises and on planning industrial construction methods for the construction combines should be supplemented by the use of computers in small production units.

The practical effects of such increased use of computers in Kreis construction enterprises would be first to give these enterprises advanced expertise in the area of rehabilitation and modernization that will be of increasing importance for the entire construction sector. Second,

the Kreis construction enterprises are relatively simple in structure and small in size, which makes it possible and desirable to provide computer support for the enterprise reproduction process in all its aspects and thus also to use a product enterprise organization.<sup>14</sup> That too will provide experience for the entire construction sector.

The necessary software should always be produced where the appropriate specialist knowledge is available or where conditions are the most favorable for accumulating it. Therefore, we should concentrate the developer capability. In accordance with the expertise principle, precedence in the centralized program development process should go to the Kreis construction enterprises' process expertise in tasking, implementation, and use and to the computer expertise of a "Kreis Construction Software Producer" (to be created). From international experience we know that only 20-30 percent of efficiency gains come from the use of computers. Some 70-80 percent comes from improved work organization, in other words from ordered enterprise activity.<sup>15</sup>

In sum, we need to take the following steps for the planning and management of the further technical-technological development in the Kreis construction enterprises:

1. Full implementation of elementary principles of order on the construction site, of industrial-style labor discipline by developing and implementing the technological regime, as well as legally fixed customer-control of the quality and quantity of the work done;
2. Computer-supported inventory (building document) maintained within the organization legally responsible for each building, compatible with the Kreis Construction Office and the repair enterprise;
3. Improved decisionmaking by the prime customer, authorization of the local councils for planning and balancing, as well as spatial and temporal structuring of construction capability according to human needs and the reproduction requirements of the building stock rather than just according to the per capita productivity increase of the currently available construction capability;
4. Reducing the gap between the need for repairs and repairs actually carried out on a regional basis, initially through significantly more effective organization and thereby significantly more planned use of available capability on buildings deserving maintenance (higher intensity and flexibility through computer-supported process analysis, nuanced according to reproduction form);
5. Concentrated software reproduction and improved organizational capability in the centers for organization and data-processing in the Kreis construction enterprises;
6. Parallel to that, accumulate the resources and build up the concentrated capabilities (1990 and onwards) for the urgently needed mechanization and prefabrication of



elements and construction materials according to the principles of regional and economic division of labor;

7. Produce modern labor materials and prefabricated and precompleted (designed) construction materials in the largest-possible series and in new quality for use in significantly rationalized labor processes and product organization structures;

8. Flexible prefabrication and regeneration facilities (stationary and mobile), increasing combination of the progressive elements of traditional and interchangeable construction.

Along these lines we must make the use of microelectronics more and more a normal, natural thing in construction. Modern construction will then mean combining tried and true traditional experience with state-of-the-art technology.

#### Footnotes

1. "Bericht des Zentralkomitees der SED an den XI. Parteitag der SED" [Report of the Central Committee of the SED to the XIth Party Congress of the SED], reporter: E. Honecker, Dietz Verlag, Berlin, 1986, p 37.

2. "Grundlagen zur Entwicklung von Erzeugnissen und Verfahren zur Instandhaltung, Instandsetzung und Modernisierung von Wohnungs- und Gesellschaftsbau nach 1990" [Principles for the Development of Products and Processes for the Repair, Rehabilitation, and Modernization of Residential and Social Construction after 1990], study by the Construction Academy of the GDR, Institute for Residential and Social Construction, March 1987, p 13.

3. Cf. "Bericht des Zentralkomitees der SED an den XI. Parteitag...", op cit, p 35 f.

4. Cf. "Zur Entwicklung des Wohnungsbaus in der DDR im Zeitraum nach 1990" [On Developments in Residential Construction in the GDR in the Period After 1990], Construction Academy of the GDR, 15 March 1988, p 9.

5. Cf. Fourth Plenary of the Central Committee of the SED, 23-24 June 1982, "Aus dem Schlusswort des Genossen Erich Honecker" [From Comrade Erich Honecker's Concluding Words], Dietz Verlag, Berlin, 1982, p 95 f.

6. New construction: 65 percent material costs and 35 percent wage costs at a norm (for 1986-80) of 93,000 marks per housing unit;

modernization: 28 percent material costs and 72 percent wage costs at a norm (for 1986-90) of 21,000 marks per housing unit.

7. Due to BMSR [equipment measurement, guidance, and regulation] technology, elevators, ventilation, air conditioning, and water pressure equipment, operating costs are even higher for multistory and high-rise units.

Operating costs for old and new construction are not comparable, because different utility values are involved.

8. H. Schulze/H. Hilliges, "Systematisierte Informationen ueber typische Wohngebäude der DDR" [Systematized Information on Typical Residential Buildings in the GDR], op cit, p 3.

9. E. Schunk, "Zur Grenzwertmethode" [On the Marginal Value Method], WISSENSCHAFTLICH-TECHNISCHE INFORMATION DER BEZIRKS-BAUAEMTER LEIPZIG, DRESDEN, KARL-MARX-STADT, no 2/1986, p 15.

10. Cf. Untersuchungen der Bauakademie der DDR [Studies of the Construction Academy of the GDR], unpublished.

11. H. Michalk, "Dokumente der 44. Tagung der Bauakademie der DDR" [Documents of the 44th Session of the Construction Academy of the GDR], Bauakademie, Berlin, 1981, p 12.

12. This involves the following distinct tasks if we are to achieve efficient reproduction of housing stock:

—Improved maintenance—taking advantage of citizens' initiatives—through rapid repair of damage as it occurs, using mobile units and flexible techniques (e.g., vehicles, cranes), and planned preventive maintenance of operative and safety-related elements by workers from the building and private sectors;

—Increased planned, selective (individual site) rehabilitation and modernization by all-around brigades highly skilled in a number of trades, combinable small units from Kreis construction enterprises, and PGH's [skilled labor production cooperatives];

—Focused all-around renewal including selection, demolition, and construction of new units in restructuring areas, using large specialized groups from Kreis construction enterprises (PGH's as secondary contractors)—sharing the work with housing and civil engineering combines, using computer-supported planning and preparation, modern technologies, heavy equipment, and prefabrication, in ongoing serial processes;

—Rehabilitation of larger new building by housing construction combines.

13. K. Marx/F. Engels, "Werke" [Works], Dietz Verlag, Berlin, 1956 f., vol 23, p 195.

14. Cf. J. Maschke, "Abrechnung des Reproduktionsprozesses im Kreisbaubetrieb Haldensleben mit Hilfe der Buerocomputertechnik" [Calculation of the Reproduction Process in the Haldensleben Kreis Construction Enterprise Using Office Computer Technology], BAUZEITUNG, no 9/1988, p 399.

15. Cf. G. Saeltzer, "Neue Programme fuer jedes Problem" [New Programs for Every Problem], *TECHNISCHE GEMEINSCHAFT*, no 6/1988, Presidium of the KDT, p 5.

## HUNGARY

### GKI Presents Grim 1989 Economic Report, 1990 Outlook

25000549 Budapest FIGYELO in Hungarian  
30 Nov 89 pp 1, 6

[Article by Gabor Werner, of the Economic Research Institute—GKI: "Drifting Along the Path of Least Resistance"]

[Text] Some characteristically two-faced economic reflexes have evolved in response to the 1989 price, wage, and import liberalizations. On the one hand these are positive processes. They have produced increased enterprise autonomy, the emergence of internal motivation unimpeded by administrative barriers, and a growing adaptation of these to market conditions. Dismantling the earlier administrative management practice, and developing and strengthening the market mechanism is the alpha and the omega of any rational economic policy. At the same time, however, survivalist motivations (reproduction within an unchanged structure) in the economy remain very strong. These destructive spontaneous reflexes travel along the path of least resistance and manifest themselves in a certain kind of privatization practice, in too large ruble exports, in overdue receivables waiting to be paid, a foreign exchange black market, wage competition, and inflation. Understanding the logic of these internal processes, and the management and prevention (supposedly, in the short term only the blunting) of the unfavorable effects of these processes in a manner consistent with the marketplace presents itself as the most important economic policy problem to be resolved.

Ever since the beginning of the year, the Economic Research Institute [GKI] has consistently indicated that in the short term prevailing economic trends would result in a larger than planned convertible currency deficit, in higher inflation, and in the issuance of excess money. On the other hand, we counted on economic management to prevent the accumulation of a huge balance of payments surplus which by now exceeds 1 billion rubles, and on not relaxing enterprise level monetary restrictions unless enterprises are liquidated, which now manifests itself in the "standing in line" of overdue receivables. The combined conservative effects of these processes are stronger this year than the undoubtedly significant dynamic efforts of entrepreneurial ventures (small businessmen, limited liability corporations and stock corporations), and the occasional increased efficiency one finds within the traditional circle of industrial, commercial, and agricultural business organizations. The conduct manifested by the various economic

factors makes it apparent that efforts to postpone radical changes are made frequently.

Ever since the middle of this year Hungarian economic factors, including central management, have been preparing themselves for the elections. The resultant processes are characterized by a fundamental lack of determined changes. In turn, under existing conditions this unavoidably leads to deterioration, even though the international political environment and economic boom are definitely favorable.

In summary, the following chief characteristics prevailed in a few critical areas of the 1989 economy:

(a) In earlier days problems related to economic efficiency and the economic structure presented themselves mainly in the form of a more tense external and internal balance situation. As of recently, in addition to (and in part replacing) external and internal balance problems, these problems also present themselves in the form of a significantly accelerated inflation in the productive sphere, and a moderately increasing inflation in consumption.

The main driving forces behind these processes are enterprise endeavors to raise prices restrained by the market only to a small extent, and the balancing of the budget accomplished by tapping inflationary income, while no substantive changes are made because expenditures are reduced only to a small extent. A certain amount of inflation is unavoidable if transformation is to be achieved in Hungary. But inflation also serves as an "escape" for enterprises insofar as it enables them to avoid market pressures to change the production structure and to render production more efficient. Inflation also enables the state to achieve a balanced budget without substantive reform measures. During the past 2 years the "escape" effect of inflation has been stronger than the inflation that necessarily accompanies transformation, and has exerted a conserving, rather than a changing effect on existing conditions. Therefore one may conclude that continued inflation of this nature threatens the realization of reform concepts. As a self-nourishing process it may also lead to economic disarray.

This kind of inflationary acceleration would postpone the realization of balancing endeavors to the distant future, and would restrict structural development, capital import, and increased performance. It would also discourage individual savings, and would foster a trend by which individuals safeguard money in the form of foreign exchange, real estate, and other investments which preserve their values. The effects of inflation exerted on the various strata of the populace are also unfavorable. The real financial situation of persons whose sole income is derived from wages and pensions would deteriorate further. In contrast, certain groups within the populace (employees in certain trades in demand, some enterprise managers and leaders, speculators, traffickers, etc) could accomplish an even greater increase in their respective income and assets through

investments, and by cleverly taking advantage of opportunities presented by inflation.

(b) Wage liberalization ran well ahead of the economic environment as a whole. It came about as a result of favorable enterprise earning positions. As a result, consumer spending in 1989 was far higher than planned, and surpassed inflation. The dynamics of payments similar to wages, but not subject to personal income tax are particularly high. It is apparent that there continues to be no correlation between wages and real performance. Since real market barriers for wage increases are weak, wage increases respond to expectations for a higher than the actual rate of inflation, and to competition in wages. (Awareness of expectations for an inflation rate in excess of 20 percent next year; this phenomenon harbors dangerous cumulative tendencies.)

(c) As a result of mistaken foreign exchange and savings policies with regard to individuals, shortcomings in the domestic merchandise supply and a growing inflation, we are just about to witness the evolution of a dual currency system. Along with a general (political and economic) decline of confidence, confidence in the forint is also on the decline. Expectations may become self-fulfilling and this process would destroy the balance.

(d) Import liberalization enhanced short-term adaptation to the greatest extent. In some fields it strengthened competition, improved supplies, and moderated prices that were at unrealistically high levels. At the same time, however, imports and the import increment do not signal the advent of a developing production structure.

(e) Monetary restrictions were able only to partially harness demand (thus slowing inflation). The tough stance promised to be manifested by economic management did not materialize. The failure to perform bankruptcy liquidations, a growing volume of overdue receivables "standing in line," and excess ruble exports preempted tight credit practices. All these phenomena create increasingly hard to manage financial contradictions.

It was not possible to relax accumulated tensions either in the budgetary, or in the monetary spheres.

The fact that the state budget deficit will be at a level projected by the package plan, i.e., between 20 billion and 25 billion forints (or perhaps even less), should be regarded as a relative success. This occurs in response to restrictive measures implemented in the course of the year, and to higher inflation that necessarily followed. Nevertheless, the fact that reform measures progress slowly continues to raise concern. The most pressing tasks include the reduction of burdens related to housing subsidies, the gradual reduction of production and consumption subsidies, and the management of the state's debt. The latter will play an increasingly greater role in the future. One could hardly expect to see a rational reduction of expenditures in the absence of a comprehensive review of the institutional system, based on a clear definition of functions.

### Unstable Balance

This year's monetary processes continue to be characterized by restrictive policies. (Although to a smaller extent than last year, the rate by which the money supply increased falls below the gross domestic product [GDP] rate of increase, based on current prices.) Tight money policies contributed to the fact that there were no runaway imports payable in convertible currencies, and that inflation did not get out of hand. At the same time, it was not possible to succeed in reducing the volume of overdue receivables "standing in line," and in strengthening payment discipline. On the contrary, the volume of overdue receivables waiting to be paid has achieved a magnitude that threatens the financial system's ability to function. (The amount of the recorded overdue receivables alone came close to 20 percent of all the enterprises' outstanding current asset loan balances.) In order to alleviate this situation and to permit clear sight, banks could organize a onetime, multiple mutual compensation transaction (clearing).

Also in 1990, banks intend to initiate bankruptcy proceedings only in regard to one or two enterprises, according to our assessment. They are much rather inclined to reschedule loans, and to observe the situation in a passive manner. Banks continue to rate their clients' solvency as weak, anticipate a 2- to 3-percent increase in deposit and loan interest rates, and an approximate 1-percent increase in refinancing interest rates. (In essence, these expectations are consistent with the banks' outlook on inflation.) They continue to plan to appear on the interbank money market as credit recipients. In view of the total amount of obligations at the interbank money market, banks do not want to increase that amount.

Foreign exchange spending by individuals and the current balance of payments surplus in rubles—both of which exceed planned levels by far—along with a non-ruble current balance of payments deficit that is much larger than what we committed ourselves to at the International Monetary Fund, creates the most significant point of tension evolving in the external economic sphere. This trend manifested in the external balance conditions is unacceptable on an international scale and may result in a series of foreign reactions and domestic emergency measures inconsistent with our economic policy intentions.

Exports subject to settlement in currencies other than the ruble will amount to between \$6.1 billion and \$6.2 billion in 1989. The export volume has expanded by between 8 and 9 percentage points. In response to the liberalization measure, the value of imports will fall to between \$5.6 and \$5.7 billion. It reflects an 11- to 12-percent increase in volume. Thus, the combined total trade surplus may be estimated at a favorable \$500 million level. The current balance of payments deficit is expected to fall between \$1.2 and \$1.3 billion, mainly because of a negative balance in foreign tourism, and due to significantly increasing interest payments.

The neuralgic point in this year's foreign trade is the excess of exports payable in rubles, over and above the diminished value of imports payable in rubles. Unless serious measures are taken in the upcoming period to improve the ruble balance of payments, we may close this year with a trade surplus of between 700 and 800 million rubles, and with a balance of payments surplus of about 1.5 billion rubles. The trade surplus may be maintained at the already undesirable high level of between 400 and 500 million rubles, if immediate, forceful steps are taken to slow down ruble exports (e.g. the introduction of mandatory export deposits, revaluation).

### What To Expect in 1990

An unavoidable preelection and postelection wait-and-see attitude by the government will characterize all of next year. This year's deterioration is likely to continue if existing conditions continue to prevail: The ruble surplus will continue or increase, there will be an even more keen wage competition and thus consumer spending will substantially increase, inflation will wind up and will threaten to become runaway inflation, and the financial system will be in total disarray. These tensions may be blunted by the government only if it takes very firm, forceful actions. By now the real hard problems must (should) be resolved in the production sphere, at the expense of weakly managed enterprises.

Structural and efficiency requirements vis-a-vis the economy are expected to gain strength in 1990. In markets where settlements are made in currencies other than rubles one must count on moderating demand and prices with regard to products having the character of materials, and on a further loss of trading positions with regard to processing industry products exported by Hungary. We must significantly reduce exports subject to settlement in rubles. This will cause tensions mainly within industry. The situation remains unchanged with regard to investments: We cannot count on an upswing. In contrast, Hungarian supply will not be able to satisfy demand either in terms of choice, quality, or price in regard to products (durable consumer goods) for which domestic demand will expand in a dynamic fashion. With strengthening market effects in the agricultural economy, the centrally sheltered character of that branch will fade. Certain processes of change (which are difficult to predict in detail) will begin. In the longer term these processes may be accompanied by a large-scale rearrangement of supply, demand, prices, and income. (E.g. a sudden price increase may result from lifting price controls on an expanded group of agricultural products.)

Considering the processes and the conduct of economic factors thus far, one may safely draw this clear-cut conclusion: Inflation will accelerate in 1990. Despite the determined intent of the government, one cannot expect enterprises to change their attitude in any pronounced manner regarding inflation. Expanded competition, the evolution of the market mechanism will progress slowly even under favorable conditions. It will be impossible to

get away without a nominal 10- to 15-percent forint devaluation to avoid real appreciation. Wage competition will further increase. Domestic demand will also be increased by rendering foreign exchange regulations more stringent with regard to individuals.

Inflation may be slowed down over a long period of time only by developing the functioning of the entire economy, through the evolution of competition and a market economy, and by establishing an environment which enforces requirements for structural change. There are no rational administrative methods by which this process can be countered, on the other hand, only a limited number of market constraints have evolved. The processes may be slowed down, or more accurately, they may be appropriately channeled by permitting interest rates to increase, by expanding import liberalization to cover end products, by maintaining the real exchange rate level of the dollar, by making regulations governing the outflow of rubles more stringent, by stimulating individual savings, by improving the processes of reconciling interests, and by avoiding steps which strengthen inflationary expectations. Clearly, the management, control, and harnessing of inflation, as well as ensuring harmony between inflation and transformation is one of the most important economic policy (not just political) tasks in the upcoming years.

### Demand Factors

In the upcoming months global economic processes will be favorable to the Hungarian economy from the business cycle standpoint. In financial terms, however, these processes convey more difficult conditions because of higher interest rates. Efforts to establish a unified West European Market, and stronger economic policy and financial coordination greatly enhance continuation of the European economic boom. Economic growth of between 3 and 3.5 percent may be expected this year in the region as a whole, with a 7-percent expansion of imports. It is likely that next year the growth rate will decline by one half of one percent. Developed capitalist countries will experience more moderate inflation than in previous growth periods, mainly because of solidified structural changes and as a result of fine-tuned monetary policies. Base material prices are likely to drop, and interest rates which increased in several steps this year will stabilize. Within the CEMA market we must count on further deteriorations in the preparedness to deliver, and on more forceful demands for imports.

The nominal value of total 1989 individual income increased substantially, but due to the high rate of inflation the real increase amounts to only somewhat more than what the plan called for. Along with an expected 17- to 18-percent inflation rate, real wages are essentially stagnating, (they are increasing in industry and in the building industry,) and the per capita average real income is increasing somewhat, along with growing differences in real income. Consumer attitudes continue to be characterized by endeavors to become self-sufficient, by an orientation toward the hidden economy,

and by diverse consumption and accumulation habits. A structural shift reflecting differentiation in retail sales continues: Food and consumer goods sales are stagnating, catering industry and clothing sales are in a sharp decline, while mixed industry sales show a dynamic growth. The latter is a new phenomenon which resulted in part from improved supplies that appeared in response to import liberalization.

Accordingly, taken together, domestic demand is stagnating, while foreign purchases show a significant increase. During the past 2 years Hungarian tourists traveling abroad purchased more foreign exchange than foreign tourists arriving in Hungary exchanged through official channels. This excess amounted to 8 billion forints in 1988. In 1989 it is expected to amount to between 20 and 25 billion forints. The 2 November change in foreign exchange policies with regard to individuals, and the fact that upcoming, new restrictive customs policies will be implemented beginning on 1 January 1990 only, will increase individual foreign exchange purchases and black market traffic in the remaining months of the year. Incidentally, the new restrictive policy is based on entirely rational considerations.

Savings having the character of deposits will moderate. Savings in the form of securities and cash (with a supposedly increasing proportion of such savings in the form of convertible currencies) will increase. Insofar as interest earnings are concerned, the nominal value of savings will increase, but will strongly decrease in real value.

This year's demand for investment is moderated by the reduction of accumulation expenditures by the budget in the course of the year. According to last year's trend, one may expect to see the postponement of investments to next year because of increased general sales tax refunds. Enterprises continue to fail to indicate an increased intent to invest. Commercial banks also prefer providing short-term loans. The thus far small amount of foreign capital import does not result in significant investment or structural transformation either. Moreover, frequently the investor is motivated only by short-term interest. This year the state and enterprises are likely to have invested 260 billion forints. The growth rate of private investments and of inventory accumulations will also be dynamic this year.

### The Supply Reaction

The supply reaction by the productive sphere continues to be weak. Even if perhaps to a lesser extent, the consumer environment permits two large groups of enterprises to acquire opportunities to sustain themselves, or, on occasion, to expand without a radical change in the market and without increased efficiency. These two groups consist of enterprises relying on the state (base material, industrial, ruble exporting, and large service provider enterprises), and the majority which plays tactical games without having a strategy. The dynamics expected from small business units (small enterprises, small cooperatives, limited liability corporations, private ventures) this year is

unable to offset the situation that reflects depression in a majority of enterprises having more than 50 employees. Thus we predict a modest 1-percent expansion in the GDP for both 1989 and 1990.

Within industry, enterprises react differently to reduced domestic demand and to central action restricting opportunities to export in exchange for rubles. Reduced machine industry exports—and particularly reduced machinery and machine equipment, as well as transportation industry exports—subject to settlement in rubles are coupled with an increasing volume of exports subject to settlement in convertible currencies. Similar reductions in the light industry, and within that particularly in the textile, shoe, and textile clothing industries, are coupled with reduced production.

In 1989 the exportation of industrial products subject to settlement in currencies other than rubles will expand by between 6 and 8 percent, responding to the still vigorous demand. The volume of exports subject to settlement in rubles will decrease by between 3 and 5 percentage points, which is less than the decrease planned. Aluminum foundry and instrumentation industry enterprises are expanding their exports significantly. Responding to a decline in demand, domestic sales will decrease in every industry branch, except for the electrical energy industry.

The number of persons employed by industry (not including small organizations) will decline by 4 percent, or by about 50,000 persons. The activities of economic work collectives [GMK] will be more moderate, while the ratio of overtime hours will increase somewhat, mainly in the machine and light industries. As a result of strengthening efforts to increase wages, a larger than expected income, and a significant workforce reduction, the average net income of employed persons will increase by between 17 and 18 percentage points—well above the projected increase. The increase of the net average income of white collar workers is 5 percentage points higher (21-22 percent) than that of physical workers. Endeavors to increase wages exert a fundamental effect upon the overall conduct of enterprises.

The gross production volume of industrial enterprises and of cooperatives does not reach last year's levels, while the same indicator in small organizations exceeds last year's figures by between 3 and 5 percentage points. Production is stagnating in the specialized branches of base material and energetics production, but the income situation of enterprises shows further improvement, mostly as a result of price gains. Reductions in processing industry production are larger than the average reductions, because of a 4- to 5-percent decline in light industry production. For this reason, and because of the significant ripple effects of materials price increases (e.g. the machine industry), differences between enterprises are on the increase: The number and ratio of loss operations and business organizations struggling with solvency problems is growing.

The 1989 volume of Hungary's construction and assembly activities will not decrease this year; it will in fact exceed last year's volume to a small extent. This is contrary to the trend that was planned, and in essence it is also contrary to the trend manifested during the past 10 years. The manner in which building industry performance takes shape is based on a moderately expanding demand for building investment projects, (and within that residential investments were reduced). On the other hand, maintenance work is moderating, primarily in response to the expressed need. The workforce reduction trend that took shape during previous years continues.

Agricultural production in 1989 is expected to fall somewhat behind last year's levels. The volume of plant production will remain almost unchanged, but animal breeding will decline by 4 percentage points, and contrary to previous years, supplemental activities will decline by a small degree. The exportation of agricultural products subject to settlement in currencies other than rubles (this constitutes more than two-thirds of all food exports) comes close to last year's outstanding level. The exportation of so-called traditional products will decline by between 4 and 5 percentage points, and the exportation of small items which constitute more than one-third of the exports will increase by about 9 percentage points.

**Summary Economic Indicators—Volume Changes as Compared to the Previous Year  
(percent)**

Indicator	1988	1989 GKI Prognosis			
		Plan	1	2	3
Added value (GDP)	100.1	About 100	100-101	About 101	100.5-101
GDP exchange rate changes, adjusted	102.7	About 100	About 101	101-102	102-102.5
Domestic producer price index	About 107	110	—	About 114	About 114
GDP domestic consumption	97.2	About 99	100-101	About 101	100-101
Individual consumption	95.6	About 100	100-101	About 101	About 100
Consumer price index	115.7	112-115	117-118	117-118	117-118
Investments by state and cooperative organizations (current prices, billions of forints)	231	286-289	255-260	About 260	About 260
Direct international trade balance (current prices)					
Millions of rubles	217	-150 to -100	0-100	200-300	400-500*
Millions of dollars	495	400-500	About 300	About 500	About 500
Current balance of payments					
Millions of rubles	310	250-300	300-400	600-700	1100-1200*
Millions of dollars	-611	-600	About -1,000	-900 to -1,000	-1,200 to -1,300

\* In case of immediate, effective measures

### Government Attitude Toward Proposed 1990 Budget Criticized

25000547 Budapest HETI VILAGGAZDASAG in Hungarian 25 Nov 89 pp 4-6

[Article by Maria Zita Petschnig: "1990 State Budget—Saldo Mortale"]

[Text] Representatives in Parliament can hardly believe the government. They were asked to nod their heads this week to a medium-range economic package plan for the fourth time since their election. One cannot tell how much difference it made that on Tuesday, when Miklos Nemeth was just about to describe the dramatic economic situation, he confessed that the foreign indebtedness, thus far shown to be between \$17 billion and \$18 billion, actually amounts to \$20 billion, while the state's indebtedness treated as a strategic secret amounts to 1,100 billion forints.

In reality, Parliament could be satisfied. It seems that it was worth kneading the 1989 budget by also accepting its

fifth version last June, because the deficit, this magic number, will turn out to be exactly the same size as it was planned to be. This achievement is particularly daring if we consider that this year the state sphere was overly zealous in producing deficit; as far as the state was concerned, the year had ended already February or March, meaning that by then the excess expenditures had reached the 20-billion-forint level, the amount projected for the entire year.

In the interest of avoiding a fatal upsetting of the balance, Parliament in early June accepted a government package plan which was destined to prevent the threat of a 70-billion-forint deficit which was already expected at that time. The whittling down of the deficit to 29 billion forints at first, then a few days later to 21 billion forints was based on rather uncertain foundations, however, and thus the fulfillment of that requirement could have entered a contest for the "miracle of the year" title. Because, after all, except for this one number, nothing this year turned out the way it was planned. In regard to transactions to be settled in dollars the current balance of

payments deficit turned out to be three times the size of the projected amount, while in ruble relations the projection has been surpassed four or five times, but with a negative sign. Investments are on the increase; the accumulation rate and consumption are also on the increase. But one cannot find even a trace of that spectacular growth, of an improved income producing capacity, which could serve as the source of all this.

And in speaking of next year's plan it will do us well to express our views, aware of the fact that the economic situation, the sphere of movement available to the economy, is worse than it was a year ago, yet the Ministry of Finance projects a deficit amounting to between 10 and 15 billion forints, which is less than it is this year.

The picture is somewhat different if we compare the above figures with perceptions contained in the Grosz government's stabilization and evolution program. That program projected a 5-billion-forint deficit for 1989, and envisioned discontinuation of the deficit by 1990. The lapse amounts to only 10 or 15 billion, if counted in forints, but who would think of the governmental program of long ago (that also lived only for "hours" "instead of years,") as, in the wake of a liberalization and deregulation program, representatives these days begin to unravel the strings around a new, 3-year governmental package?

The cut of the 1990 budget, prepared in the tailor shop of the Ministry of Finance, will hardly be applauded by those interested. Next year's budget reveals that the philosophy followed in recent years regarding its composition has not changed. The primary goal is still to manifest an intent to be responsive to the taste of foreign creditors, and in particular to international financial organizations which shape the views of international financial markets. They are trying to tuck the economy under this requisite, so as to achieve the least possible amount of noisy tension, pushing liabilities in a direction where they may be assumed to meet the least resistance, and where the resisters do not team up and form strong armies, (although by now such fields hardly exist anymore).

Having waited for a decade for the situation to improve, the populace, the productive and the nonproductive infrastructure, and the natural environment—the "internal" creditors, victims of a several-decades-old consuming economy—are all waiting to make payments on the accumulated mass of indebtedness incurred on their account. Incidentally, the accumulation of both the external and the internal indebtedness is the consequence of one and the same social and economic system. It was called "existing" socialism.

There is hardly any doubt that, as the leader of one of the world's most indebted countries, the government is not in a strong bargaining position vis-a-vis external creditors. Based on this year's "performance," Hungary's credit worthiness has become quite ruffled, while foreign exchange reserves have sunk almost to critical levels.

The entire year has been spent on struggles with international financial institutions, and we have yet to see the end. In this situation there is no alternative but to test the tolerance of internal creditors. The decisionmaking situation has become very simple: Either the external creditors or the internal creditors must be let go. Hopefully, with regard to the former, one may be gained, while the reduction of the internal indebtedness—along with no change in income production and in structure—may bury the entire economy under itself. If this situation occurs we will be catapulted out of Europe, somewhere beyond the seven seas.

In that case there will not be even a chance to permit political capital to "appreciate in the economic field"—political capital which would be held by a new parliament and a new government elected in the course of democratic processes. Even though it would be based on the acquired capital of confidence, there could be an opportunity to take advantage of a third possibility: to negotiate a consolidated settlement of the indebtedness, in conjunction with and closely tied to radical internal economic measures.

It is of no use if the 1990 budget with its 10- to 15-billion-forint deficit adds up on paper, if its internal contents are far from satisfactory. The budget does not maintain the promised pace of dismantling the subsidy system, and incentives to entrepreneurship are not strong enough. Along with a thousand other items, this matter may also be made an issue by representatives in Parliament who appear not to believe any longer, even if they receive a new government program along with budgetary guidelines. In their minds, programs have lost their value. Since their election, this will be the fourth time that they have been called to give their approval to a package plan that promises to be the solution. They have neither the time, nor the faith to wait for the promised long-term results.

For example, what happened to the budgetary reform that was announced a year and a half ago with such great fervor? Not much more than the rearrangement of a few items: The expenses of health care facilities are financed by the Social Security Fund, while family supplements that became citizens' rights are paid for out of budgeted state funds. A new segregated fund is being established for foreign trade transactions subject to settlement in rubles, and personal income taxes will be received by local councils in the framework of a new system. Nevertheless, the budget has not been purged from the messy financing web of economic functions. Those who propose the budget admit: "In the final analysis, along with modestly expanding income—with due attention to a high degree of determined expenditure, and to the fact that we did not reach intended levels in systematically reducing state functions—we are unable to proceed according to our intentions with regard to moderating tax levels."

The fact that budgetary reform did not materialize, or that it was implemented only in part, serves as new proof that the economic system cannot be changed either, even



by way of reform measures which promise to be comprehensive. The trimming of economic functions is beyond the budgetary pale; due to pressures that come from many directions, the budget alone cannot accomplish reform. In this way everyone is critical of the Ministry of Finance on grounds of fiscal terror.

This is true, despite the fact that even now the Ministry of Finance is really trying to reach out its hand, it has reduced entrepreneurial profit taxes, it is trying to moderate the centralization of profits by further eliminating special excises, it is restraining itself in dismantling subsidies, moreover, agricultural export subsidies are even increasing, it pays special attention to health care, education, research, and the organs involved in the administration of justice—a few areas that in earlier days were treated in an austere manner.

And yet, everyone is dissatisfied, some because of the greed manifested by the budget (excises), others because of its closed-fisted policies (distributions). All the efforts make one matter apparent: The state, as a recipient of income, also tries to escape collapse. For this reason the state:

- Tries to crush and to dissipate tensions, in part by transferring those into segregated funds, and in part by transferring tasks to local organs and directly to the populace;
- “Sacrifices” part of its assets, from which it is counting on 13.5 billion forints in privatization revenues in 1990;
- Uses every possible trick to accumulate reserves.

Here are some examples: The Social Security Fund will begin to finance health care institutions as of 1 January, while family supplements will be paid from budgeted state funds only beginning on 1 April. Already at this point the Ministry of Finance has announced its intent to dispose over excess funds generated by wages paid over and above planned levels, and wages which accumulate in the Social Security Funds; at the same time, however, the ministry does not identify itself with reductions in customs duties not yet implemented, but agreed upon at the GATT round of negotiations. These reductions would represent a 4- to 5-billion-forint revenue loss. In time, some revenues may be created by the fact that the various columns show 11- to 12-percent producer price

increases, and 15-percent consumer price increases, while the inflationary expectations within the economy are higher. More rapid price increases provide an opportunity to withdraw a larger part of the income through the tax system, while inflation does not affect expenditures instantly and to the same degree. Part of the debt service contained in the state budget may also be transferred to the following year. Thus, for example, the manager of the state budget tries to transfer 22 billion forints to 1990, and 12 billion forints from 1990 to 1991.

It is apparent that these magician's acts amount to temporary semblances only. And these acts make it difficult to avoid Parliament becoming furious in the course of debate over the budget. Most certainly, the Ministry of Finance would be better off if it did not want to “pull off” its tricks all the time, but would reveal the full truth instead, insofar as the entire state household is concerned, and would instill the reasons for the situation into consciousness. Thus, for example, they could explain why housing expenditures increased to an 80 billion forint level at a time when neither state housing construction, nor state housing renewal are taking place. (Compared to the estimated 300-billion-forint housing renewal need, the 1990 budget projects 3.7 billion forints for this purpose.) And further, they could reveal at last the way in which the 1,100 billion forints of state debt—as admitted last Tuesday—came about, what kind of garbage heap that amount covers, what interest payments it requires, how many tens or hundreds of billions of forints of debt service this will require in the future, and what kind of bomb may explode under us.

Candid talk, which would at least create the semblance of being treated as partners, would also include information provisions concerning the cost of our international financial relations, and concerning the decisions that support these relations.

No understanding can be reached, the agitated frame of mind cannot be relaxed, and compromises cannot be reached in the absence of economic glasnost, without open talk and the revelation of facts. Without that the subject of compromise, and the magnitude of tasks is not known either. In defense of certain interest groups and in the interest of social peace, the government and Parliament may reach an agreement on the basis of a quiet bargaining process, except that the resultant peace will not represent action that seeks long-term solutions. It will merely simulate the search for long-term solutions.

**State Budget Balance Sheet**  
(in billions of forints)

Revenues	1989 Expected	1990 Projected	Expenditures	1989 Expected	1990 Projected
Receipts from business organizations	177.2	184.1	Subsidies paid to business organizations	48.9	41.2
Consumption-related taxes	229.1	245.8	Consumption price supplements	44.5	39
General sales taxes (AFA)	134.6	139.2	Accumulation expenditures	45.3	48.4
Consumption taxes	94.5	106.6	Budget share of central investments	25	22.4
Payment by individuals	40.8	40.2	Budget share of enterprise investments	6.7	6.1



**State Budget Balance Sheet  
(in billions of forints) (Continued)**

Revenues	1989 Expected	1990 Projected	Expenditures	1989 Expected	1990 Projected
Entrepreneurial taxes	4.5	—	Privately financed housing construction support	12	18.5
Tax payments	6.2	6.4	Supplements paid to inventory accumulation, enterprise funds	1.5	1.4
Dues and fees paid	4.8	5.1	Support provided to budgeted organs	133.0	184.7
Personal income taxes	25.3	28.7	Defense and other armed bodies	58.6	61.4
Payments received from central budgeted organs	3.3	1	Support provided to councils	123.5	106.6
Withdrawals from segregated funds	18.1	57.9	Support of segregated state funds	54.7	58.6
Revenues derived from international financial relations	4.2	4.7	Expenditures incurred as a result of international financial relations	18.5	20
Profit taxes and dividends paid by financial institutions	21.5	24	Debt service, interest payments	37.9	70.3
Other revenues	7	2.1	Repayment of loans	7.2	7.2
Revenues derived from the sale of state property	0	13.5	Other expenditures	15.9	15.2
Total Revenues	501.2	573.3	General reserves	0	4.2
			Total Expenditures	522.2	588.3
<b>SUMMARY</b>					
Total Revenues	501.2	573.3			
Total Expenditures	522.2	588.3			
Balance	-21	-15			

**New Foreign Exchange Restriction on Business**  
25000566B Budapest HETI VILAGGAZDASAG in  
Hungarian 16 Dec 89 p 9

[Unattributed article: "Limited Liability Corporations—Foreign Exchange Stop"]

[Text] According to recent rumors, limited liability corporations with independent exporting authority will henceforth not be able to receive foreign exchange funds. This information is not fully consistent with the truth, HVG was told by the Ministry of Commerce [KEM]. In 1989, based on a general rule, limited liability corporations with independent exporting authority could automatically use three percent of their total export income for travel purposes. Organizations that did not have export income—because their involvement in foreign trade began only this year—received a 100,000 forint travel budget. This authorization was discontinued overnight by the KEM. Nevertheless, the foreign exchange restriction only applies to limited liability corporations which intended to begin exporting in November. According to the explanation provided by KEM, in addition to the shortage of foreign exchange, this measure is warranted by the fact that limited liability corporations with newly acquired export authority would have hardly produced any significant exports by year's end. At the same time, by introducing this measure, the possible threat of one- and two-person family limited liability corporations using funds originally tied to export

requirements for personal purposes has been eliminated. HVG was also told by the KEM that a joint Finance Ministry-KEM decree will be issued shortly. It will provide for next year's travel funds to be used by limited liability corporations.

**Vienna, Budapest Selection Confirmed for EXPO 1995**

25000566D Budapest NEPSZABADSAG in Hungarian  
15 Dec 89 pp 1, 3

[Interview with Laszlo Somogyi, government commissioner, by Laszlo Rozsa in Paris on 14 December 89: "Vienna-Budapest: World Exhibitors"]

[Text] At about 1100 hours on Thursday, in the hall of the International Railroad Union in Paris, one could tell the results without asking questions, just by looking at the faces of the Austrian and Hungarian delegation members. Government Commissioner Laszlo Somogyi, Minister of Culture Ferenc Glatz, and Budapest Chief Mayor Jozsef Bielek, along with Austrian Minister for Science and Research Erhard Busek, and Vienna Vice Mayor Hans Sloboda discussed the day's events with visible relief.

[NEPSZABADSAG] How did the general meeting go?

[Somogyi] According to the usual schedule. At first Minister Busek and I, and then Chief Mayor Bielek and

Vienna Mayor Hans Sloboda made brief introductions. With an electronic video sequence we presented the preparations that had been made in Vienna and Budapest. Thereafter the general meeting voted to designate Vienna and Budapest as the organizers of the 1995 World's Fair, and they did so by unanimous acclamation accompanied by applause.

[NEPSZABADSAG] Considering the fact that Hungary's economic and financial situation is well known, was any concern or doubt expressed with regard to the designation of Budapest by International Exposition Office [BIE] members?

[Somogyi] There was no such thing, because the BIE considers such matters to be the internal affair of the organizing countries. Quite naturally, we have always properly informed the BIE of our situation. Accordingly, at this time the right and the opportunity have been given, but now the foundations for financing must be established, and this will require very hard work. After all, the Hungarian budget is in no position to pull out of its pocket several tens of billions of forints. We believe that a large part of this matter must be accomplished in the form of business, by attracting Hungarian and foreign capital. At this time it is incumbent upon us to find these partners. At the same time we want to organize an exposition whose buildings may also be used by the Hungarian economy after the exhibit.

[NEPSZABADSAG] As government commissioner, what guarantees can you offer to the partners that everything is going to proceed well?

[Somogyi] First of all I can offer the agreement of the Parliament which could be seen most recently. The other guarantee is the government's decision to organize the exhibit, and the third guarantee is the fact that this is a national event, the kind for which it is possible to create unity. And finally, we can offer as a guarantee the announcements and expressed interest of entrepreneurs who have already indicated an intent to make investments.

[NEPSZABADSAG] Was the location discussed when you presented the plan?

[Somogyi] Yes, we also showed the location. Last week the Hungarian selection committee made its final choice regarding location. This is the Southern Danube region, i.e. Lagymanyos, Csepel Island, the Pest side of the Danube, and the railroad bridge area. Appropriate photographic documentation of this location has been prepared, and we have presented it.

[NEPSZABADSAG] In what ratio will Austria and Hungary share in the exhibit?

[Somogyi] Half and half, but no final agreement has been reached as to how we will share topics and exhibitors. This will have to be finalized in the upcoming months.

[NEPSZABADSAG] What will you do first upon your arrival home?

[Somogyi] I will report to the prime minister, and the National Assembly will be in session next week, and they want to hear the report too. The organizers must be informed, and we must begin without delay to establish an enterprise which will manage the work not at the governmental, but at the business level.

[NEPSZABADSAG] What enterprise will that be?

[Somogyi] Its temporary name is Expo Stock Corporation, Budapest, which is not the same as Hungexpo, but perhaps it can become one of its stockholders. The task of this corporation will be to attract foreign enterprises and finances. Accordingly, this will be an open stock corporation, one that may also be linked to the populace, according to our hopes.

At a press conference after the BIE session Austrian Minister Busek said that ever since announcing the motto of the exhibit, walls and Iron Curtains have crumbled. As a result of this the major theme of the exposition may be the way in which neighboring countries can coexist and understand each other. In other words, the motto "bridge to the future" will acquire the content of a "bridge toward the future of Europe." Glatz called attention to the fact that this exposition conveys not only an economic, but also a cultural message, because it can also present the artistic and cultural achievements of the two nations in which the character of being Central European dominates. It is precisely for this reason that we are counting on the active participation of neighboring countries.

### **Proposed Antitrust Laws Released for Public Comment**

*25000559 Budapest FIGYELO in Hungarian  
14 Dec 89 pp 21-26*

["Competition and Pricing Laws (Draft)"]

[Excerpts]

#### **Introductory Considerations to Modernizing the Regulation of Competition**

1. The Constitution of the Hungarian Republic states that "based on the principle of competition neutrality, the Hungarian Republic recognizes and supports the right to entrepreneurship and the freedom of competition, either of which may be restricted only by way of constitutional law." It also states that "The Hungarian economy is a market economy which utilizes the advantages provided by planning...."

A market economy may become the engine of our economic uplift only if the freedom and purity of competition are capable of becoming functional principles of general applicability in the way we are doing business, based on legal order and actual power conditions. While exerting a mutual effect upon each other, the market and competition may become the means by which the much needed added achievement comes into being.

Competition is not a self-serving functional principle, because self-serving competitive struggle may undermine the market economy. This is why laws preventing the deterioration of competition, and on the basis of these the ethics of fair business practices, have evolved historically in every economy that functions pursuant to market standards, and this is why there is a need for a competition law in Hungary—one that regulates conduct in the marketplace.

We are publicizing the draft law on competition. As in many countries, in Hungary the title of the law does not make direct reference to competition, because we are recommending that law for adoption by the National Assembly as a law prohibiting unfair conduct in the marketplace. In part, such provisions are based on tradition. Law No 4 of 1984, our first law on competition, bears a similar title. The new proposal further develops the internationally recognized, appropriate principles of the previous law. But it also represents substantial change, inasmuch as it prohibits conduct infringing on the freedom and purity of competition not only for entrepreneurial, but also for state and social organizations; mandates that any merger of property that may be conducive to market dominance be examined from the standpoint of competition; and by establishing the Cartel Office, provides institutional safeguards to enforce compliance with rules of competition which prohibit abuse of superior economic power. At the same time, the new proposal provides legal and political guarantees so that in protecting the purity of competition, the Cartel Office does not become an impediment to competition. This is accomplished by the fact that determinations issued by the Cartel Office are subject to judicial review, and by the mandate that the Cartel Office must regularly report to the National Assembly concerning its activities, and in general, about the competitive situation in Hungary. (This will be prescribed in a separate law providing for the establishment of the Cartel Office.)

In preparing this proposal we utilized several decades of experience gained in Western market economies with regard to competition law. This made it possible to regulate activities that infringe upon the freedom and purity of competition, and to provide for their prohibition in the framework of a single law. As proposed, the law provides for direct judicial protection in cases involving unfair business conduct (e.g. defaming a competitor's reputation, violating rules governing business secrets, deceiving consumers); such protection may be sought directly by the aggrieved person. Historically, this branch of competition law was first to develop in market economies. It is governed by separate law or laws in several countries. In addition to covering the right to compete, our competition law extends to prohibit the abuse of superior economic power, as well as exclusionary practices, and clarifies legislative intent with regard to cases involving cartel agreements and mergers leading to superior power (or influence) in the marketplace. It does not prohibit cartels and mergers. Such

prohibitions have not accomplished their goals anywhere, because they (would have) mostly impeded economic development. Instead, the proposed law takes the position that only those cartel agreements are prohibited which inhibit the existence and functioning of competition leading to economic growth, or which violate the legitimate interests of competitors. The law contains the chief principles of these appropriate purposes. We examined foreign laws which endeavored to prescribe detailed standards of conduct. These did not work out well in practice. Every detailed rule suggested a need for the regulation of some other detail. Rather than follow this approach we placed emphasis on the strengthening of the above-mentioned legal and political system of guarantees.

2. Following societal debate, and after incorporating the necessary changes, we intend to submit the law on competition to the National Assembly. It will be one of the important elements of the legal order underlying the market economy. In this regard, however, the following must be taken into consideration:

(a) The legal order and the institutions of a market economy are developing at a rapid pace in Hungary. From among these, legal provisions and government programs pertaining to proprietary reform, liberalization (regarding imports, prices, and wages), deregulation, incentives for entrepreneurship, the establishment of real and possible equal opportunity for small and medium-sized enterprises, and budgetary reform are of outstanding significance. The system provided by the law on competition, the proposal for the establishment of a Cartel Office, and judicial control over the actions of that office must be weighed in the context of these legal provisions and government programs.

(b) Potentially favorable competitive conditions characterize market conditions in the Hungarian economy only in certain fields. Such conditions are in the process of evolving in other fields, and many parts of the market are characterized by monopolistic situations and shortages. To a significant degree the reason for these shortcomings may be found in economic policy concepts followed by state organs thus far. These policy concepts overly inhibit activities, moreover they are discriminatory (e.g. the unprincipled provision of subsidies). The proposed law would stand in the path of such state organs, and it would provide opportunities for the review and discontinuation of existing, exceptional monopolistic agreements, or agreements which create superior economic power, which are prone to abuse.

Despite all of this, competition may evolve into a needed organizing principle only on the grounds of actual changes in economic power relationships. Therefore the transformation of the economic structure, the modernization of proprietary conditions and production, the evolution of the monetary flow and its institutional system, as well as the improvement of the ratio of supply and demand enjoy priority. On the other hand, it has become clear by now that the transformation of the legal

system and the economy are mutually presumptive, mutually reinforcing parts of transformation. (In case any one of these parts falls behind, they serve to mutually weaken the two elements.) A market cannot evolve unless the law guarantees that the freedom of entrepreneurship cannot be restricted by regulatory details promulgated by the state; unless there are assurances that an entrepreneur's business policies, his internal income situation, and his financial obligations and rights vis-a-vis the state cannot be restricted by momentary or particular economic policy considerations of state organs; unless every entrepreneur has an equal chance to join the competition, etc.

For this reason it would be inappropriate to suggest that introducing the system of laws governing competition should wait until such time that market conditions gain strength. This competition law going into effect is only one element of building the market, nevertheless it is indispensable.

(c) Development of the present legislative proposal for a law on competition was preceded by several years of scientific, professional work. In the course of this work we made an intensive study of competition laws in Western market economies and in the European Economic Community. The experience gained was incorporated in the present proposal. With regard to its chief prescriptive rules, a few differences may be found between competition rules governing already functioning Western markets on the one hand, and our evolving competition law, on the other. These differences relate primarily to the present conditions of our market:

- According to our proposal, the legislature prohibits state organs from interfering with entrepreneurial and business policy activities;
- Our proposal enables the review of agreements having the character of cartels, and of monopolistic situations for a limited time;
- In regard to entrepreneurs violating the rules of competition, the organization that oversees competition may decree certain pricing sanctions (for a certain period of time it may establish maximum prices, or may tie price increases to mandatory advance reporting).

These differences indicate that for the time being, with regard to phenomena that are alien to market functioning, an opportunity must be provided to the state organ having jurisdiction to implement certain administrative measures under appropriate constitutional and legal control, along with the expected condition of the market in the near future. The threat of such phenomena must be reckoned with to a greater degree, particularly during the initial years of transformation. Later on the possible deletion of these differences from the law may be considered. These differences also indicate, of course, that precisely because of these differences, constitutional

and legal control over the activities of the Cartel Office must be heavily underscored.

3. Simultaneously with the law on competition, we recommend that the National Assembly create a pricing law that is consistent with the principles of a market economy. The essence of this would be a pronouncement in the form of law that as a general rule, prices are not regulated by the state but by the market instead, meaning that prices evolve on the basis of business interests, according to agreements reached between parties (to a transaction). Although on the basis of social policy and market considerations the state may also exert direct influence on prices (official prices, obligation to report price increases) relative to a smaller part (25 percent) of commerce, it may do so only consistent with conditions which may be characterized by market imbalance or superior economic power, and only until such time that the negative situation has ceased to exist, on a temporary basis.

With this law, pricing policies and competition policies would become integrated. It would be recognized that the fairness or unfairness of prices does not depend on the price level itself, but instead on business conduct by which the price was derived. (A relatively high price may be fair if there is realistic demand for merchandise even at such a high price, and if the high price is not derived on the basis of taking advantage of one-sided superior economic power. Similarly, a relatively low price may be unfair, if its purpose is to destroy a competitor and to achieve monopolistic profits later.)

We are also publicizing the proposed pricing law. In the relationship between the pricing law and the law on competition it must be emphasized that state organs may object to prices only on the basis of acts and practices that violate the prescriptions of the competition law. In this sense, economic power relationships must be formulated (influenced) by the state so that free and fair workings dominate the marketplace, and so that action taken against abusive prices that accompany market disorders fall under the jurisdiction of the central organ which exercises control over competition, i.e. the Cartel Office.

4. According to our plans the National Assembly would establish the Cartel Office by transforming the National Pricing Office, and would base the functioning of the Cartel Office on the expert staff of the National Pricing Office. Our experts have been preparing themselves to perform this function for several years, they have acquired broadly based knowledge concerning the market, and they have studied foreign competition laws.

The Cartel Office would perform its functions in two ways: It would take part in the formulation of the government's competition policies on the one hand, and would ensure compliance with the provisions contained in the competition law and the pricing law. The Cartel Office would not be directly involved in establishing prices; establishment of the remaining, particularly

important official prices would be the task of state organs to which this task could be entrusted in the most rational manner, due to the complexity of these matters. On the other hand, the Cartel Office's function would extend to the review of established official prices from the standpoint of competition. Similarly, the Cartel Office would be obligated to control legal provisions and state administrative determinations to be promulgated from the standpoint of enforcing the provisions of the laws on competition and on pricing. The Cartel Office would have the authority to challenge legal provisions that conflict with the laws on competition and pricing before the Constitutional Court, and state administrative determinations before the Administrative Law Court.

Anyone whose interests are violated by some anticompetitive activity, or who experiences conduct contrary to provisions contained in the laws on competition or on pricing, may initiate proceedings before the Cartel Office relative to matters involving superior economic power or the control of mergers.

The law would vest the Cartel Office with sanctioning powers. In this framework the Cartel Office could prohibit the continuation of illegal activities, could order the payment of fines by violators, may provide for indemnification, etc.

The Cartel Office would have no authority to formulate legal provisions.

\*\*\*

The National Pricing Office began its work on the modernization of the competition and pricing laws three years ago, relying broadly on the cooperation of research and practicing economists and lawyers, and in terms of finances on specific assistance provided by the World Bank.

The first phase of the work included the analysis of present and previous legal materials, as well as the analysis of the market situation from the standpoint of competition. Thereafter we reviewed regulations and practice on an international scale, comparing those with Hungarian conditions and seeking possible points where these could be adapted. During the last year or two examinations related to market development have been pursued, parallel with the clarification of the principles of regulations and the actual content of such regulations. In the summer of 1988 the Planned Economy Committee, and in 1989 the Council of Ministers reviewed our intentions as those were reconciled with representatives of the scientific, economic management, and enterprise communities. At that time the Council of Ministers agreed to certain principles which determined the course of further work.

Based on a determination rendered by the Council of Ministers, a codification committee headed by Deputy Justice Minister Tamas Sarkozy was formed to develop a draft text for the law on competition. A draft law on pricing was developed at the National Pricing Office. Meanwhile this topic also became part of the agenda dealt with in the course of trilateral political conciliations, and

an agreement was reached with regard to principles. In the course of our future workings, discussion of these matters before parliamentary committees will be emphasized, so that in early 1990 the government may submit to Parliament a well-founded legislative proposal.

The National Pricing Office requests those interested in this subject, the various interest communities in society, to assist in establishing better foundations for these laws by communicating their comments, observations, and proposals regarding the proposed draft laws on competition and pricing. In doing so they should consider the statements contained in this introductory material. Interested parties may communicate in writing, in person, or by telephone with Mrs. Dr. Gyorgy Boytha, head of the regulatory and legal division (131-4991); Jozsef Lakatos, head of the economic division (131-5150); Dr. Marta Nagy, deputy to the head of the economic division (131-5748); and Dr. Laszlo Racz, counselor to the chairman of the Pricing Office (132-8508). (National Pricing Office, Budapest 1051, 7-8 Roosevelt Square)

Budapest  
16 November 1989

#### **I. Proposed 1990 Law Having the Force of the Constitution Prohibiting Unfair Conduct in the Marketplace**

The fundamental condition for the existence of market competition which enforces economic efficiency is the freedom and purity of competition. To protect these conditions it is necessary to prohibit forms of conduct that are contrary to conceptions of fairness in the marketplace, consumer deception, the restraint of competition and abuse of superior economic power, and to establish controls over the unification of entrepreneurs. It is the purpose of this law to protect the public interest related to economic competition, as well as the interests of competitors and consumers. To accomplish all of the above, the National Assembly creates the following law having the force of the Constitution:

##### **1. This law pertains to:**

- (a) Business activities pursued by entrepreneurs within the territory of the Hungarian Republic;
- (b) Legal disputes among entrepreneurs arising under the jurisdiction of this law, which stem from activities pursued abroad, provided that the personal rights attached to such disputes are governed by Hungarian law; and
- (c) Actions taken by state and social organizations which influence business activities.

##### **2. In applying this law:**

- (a) An entrepreneur is a legal entity, a business or other association without legal personality, and a natural person;

(b) A competitor is an entrepreneur interested in competition; and

(c) A consumer is a buyer, a person who places an order, and a user.

### General Provisions

3. Unfair business activities are prohibited, particularly in such a manner as to infringe upon the legitimate interests of competitors and consumers, and so as to conflict with conceptions of fairness in business.

4.1. Entrepreneurs as well as state and social organizations shall respect the freedom of competition. (Note: The possibility of using the term "business" or "enterprise" instead of "entrepreneur" has occurred. In regard to the use of the term "entrepreneur," it was said that the Civil Code of Laws uses this concept in a different sense in the context of entrepreneurial agreements. Several comments were made regarding the term "business," notably that the Hungarian language reserved that term for something other than what this law governs. The term "enterprise" is not suitable for defining the scope of this law because for many years this concept has been reserved for a specific group of organizations. Having weighed all of this we find that use of the term "entrepreneur" is most appropriate, because entrepreneurs are present in the marketplace, and the purpose of this law is to define rules of conduct for entrepreneurs present in the marketplace.)

#### *Alternative "A"*

4.2. The freedom of competition may be restricted only by way of a Constitutional law.

#### *Alternative "B"*

4.2. The freedom of competition may be restricted only by way of a Constitutional law. A Constitutional law must be created in order to regulate limitations on an entrepreneur's choice of business policies and activities and the manner in which an entrepreneur formulates his internal income conditions, as well as conditions for the assessment of excises and the grant of subsidies by the state.

### Prohibition of Unfair Competition

5. Violating or endangering a competitor's good reputation or creditworthiness by stating or propagating falsehoods, or true facts so as to create a false appearance, or by manifesting conduct which implicitly violates or endangers a competitor's good reputation or creditworthiness, is prohibited.

6. The production or sale of goods or services (hereinafter: "product") with a characteristic exterior, packaging, designation (including designation of origin), or name without the competitor's concurrence, and further, the use of a name, designation, or marking of products, any or all of which usually identify the competitor or his products having characteristic attributes is prohibited.

7.1. The unfair acquisition or use of business secrets and the unauthorized disclosure or publication of business secrets are prohibited.

7.2. In the context of this law, the concept "business secret" means any fact, information, solution, or data related to business activities, in the secrecy of which an authorized person has an appreciable interest.

8.1. Acquisition of a business secret without the concurrence of the authorized person, or with the involvement of a person maintaining a confidential or business relationship with the authorized person, shall also constitute an unfair acquisition of business secrets.

8.2. The term "confidential relationship" shall mean employment relations, member relations, and other legal relationships which serve the purpose of work performance.

8.3. The term "business relationship" shall mean information provided prior to finalizing an agreement, negotiation, or offer, even if such information, negotiations, and offers do not lead to a contract.

9. Removing or withholding products from commerce just prior to increasing prices, or with the intent of generating a price increase, is prohibited.

10. Appealing to a person for the express purpose of dissolving a business relationship with a third person, or in order to prevent the development of such a relationship is prohibited.

11. Promising or giving a gift having a value in excess of the usual advertising value, for purposes of increasing sales, is prohibited.

12. Conditioning the supply or transfer of products by the supply or transfer of other products is prohibited.

13. Violating or distorting the purity of competitive bidding, auctions, or transactions at the exchange in any form is prohibited.

### Prohibition of Consumer Deception

14.1. Deceiving consumers for the purpose of increasing sales is prohibited.

14.2. This prohibition applies in particular, if:

(a) Falsehoods or true facts are presented in a deceptive manner regarding the essential attributes, composition, use, handling, origin, source of origin, or source or method of procurement of products, or if any deceptive or incomplete information is provided concerning the essential attributes of products;

(b) Deceptive comparison of products are made and publicized as a matter of advertising or other information;

(c) Information concerning the fact that a product does not comply with legal requirements or does not satisfy normal expectations attached to the product is suppressed;

(d) Products are supplied with markings suitable for deception concerning the use or other essential quality of such products, their origin, source of origin, or source or method of procurement; and/or if

(e) A product of which insufficient quantity or choice is available to consumers is advertised, except if the existence of short supplies is conveyed in the course of advertising the introduction of such new product.

15. In determining whether the information provided is suitable to deceive consumers, the meaning of the terms used shall be construed the way these terms are used in everyday life, or according to the general meaning of such terms, as that is accepted within the trade.

16.1. A product comparison shall not be regarded as suitable for deception in the event that the basis of such comparison was provided by tests performed by an organization legally authorized for that purpose, or if the conditions for an objective test already existed otherwise, if the test is based on already publicized comparative data, and if the essential attributes and prices of the products compared were also publicized.

16.2. In regard to cases defined in section 16.1 above, a product comparison is suitable for deception if the test results are purposely cited out of context, in a one-sided manner.

#### **Prohibition of the Restraint of Competition**

17.1. Except for the instances enumerated in sections 18-20, any coordinating conduct or agreement among competitors (hereinafter "agreement") which results in the restraint or exclusion of competition is prohibited.

17.2. This prohibition applies in particular to price fixing, market division, the exclusion of a certain group of consumers from the possibility of purchasing or selling a product, and further, to the limitation of procurement sources and of opportunities to sell.

17.3. Except for instances enumerated in sections 18-20, the contractual stipulation of resale prices, insofar as such stipulations result in the restraint or exclusion of competition, is prohibited.

18.1. The following acts are not prohibited: agreements

(a) Aiming for the prevention of abuse of superior economic power;

(b) In regard to exports which do not have a restraining effect on the domestic market and do not violate obligations contained in international agreements; or agreements

(c) Of little significance.

18.2. An agreement has little significance if the combined market share of the parties to the agreement does not exceed 10 percent of the total volume in the affected market, in regard to the product involved.

19.1. The term "affected market" means the market in which the effect that restrains or excludes competition prevails. In determining the scope of the affected market the subject product of the agreement and the geographical area must be taken into consideration.

19.2. The "affected market" is the market of the subject product of the agreement, and of products which could serve as rational substitutes for the subject product of the agreement. In determining what constitutes rational substitutes, the intended use, price, quality, and conditions of performance must be considered.

19.3. The "affected market" is a geographical area, outside of which:

(a) A consumer could not purchase a product, or could do so under far more unfavorable conditions; or, outside of which

(b) A seller could not sell the overwhelming bulk of the products, or could do so only under substantially less favorable conditions, considering the character of such products.

20.1. Agreements are exempt from the prohibition established in section 17.1, if

(a) The consequent restraint or exclusion of competition does not exceed the extent to which such restraint or exclusion is warranted by the achievement of economically justified common goals; and if

(b) The advantages accompanying the restraint or exclusion of competition exceed disadvantages that accompany the restraint or exclusion of competition.

20.2. From the standpoint of exemption the following matters qualify as having particular advantages:

(a) Engineering and technological development;

(b) Improved production efficiency, the formulation of prices favorable to consumers;

(c) Improved product quality or the assurance of rendering permanent the already achieved product qualities;

(d) Improved performance conditions (e.g. shortened delivery terms);

(e) The shortening of the distribution path, a more rational rendering of the sales organization, improved supply of a given product; and

(f) Improved conditions for environmental protection.

20.3. From the standpoint of exemption, the following matters qualify as providing particular disadvantage:

(a) If the agreement is a substantial impediment to competitors to pursue their business activities, or to the emergence of competitors in the market, within the affected market; or

(b) If the combined market share of the parties to the agreement exceeds 25 percent of the total volume in the affected market, with regard to the product involved.

21.1. Parties planning to reach an agreement may request a determination from the organ overseeing competition to determine whether a contemplated agreement is not prohibited by section 18, or if it is exempt from prohibition on the basis of section 20.

21.2. The Office must make a determination in response to a request for a determination within 45 days from the date upon which the request was received.

21.3. Following the issuance of a determination pursuant to 21.1, the Office cannot object to the resultant agreement, or to actual performance consistent with such agreement.

22. The burden of proof regarding a claim that an agreement is not prohibited, or that an agreement is exempt from under a prohibition rests with the claimant.

23. The determination provided for under section 21, as well as determinations providing exceptions (18) and exemptions (20) may be conditioned. Such conditions may be prescribed exclusively on the basis of provisions contained in sections 18-20.

24. Specifying substantially lower prices than the prices of identical or similar products available in the market-place for purposes of restraining competition is prohibited.

#### **Prohibition of Abuse of Superior Economic Power**

25. Abuse of superior economic power is prohibited. This prohibition applies in particular to the following:

(a) The stipulation of an unwarranted, unilateral advantage specified in an agreement, including general contractual conditions;

(b) The unwarranted refusal of entering into an agreement which is consistent with the character of the business relationship; and

(c) The influencing of another party's business decisions for the purpose of obtaining an unwarranted advantage, particularly in order to achieve the other party's surrender of the enforcement of other just claims to be derived from the agreement.

26.1. A person enjoys superior economic power if his product cannot be obtained elsewhere, or if it can be obtained under substantially less favorable conditions from the standpoint of the trade and of the given product.

26.2. The buyer of a product also enjoys superior economic power if that product cannot be sold elsewhere, of it it can be sold under substantially less favorable conditions from the standpoint of the trade and of the given product.

27.1. A person enjoys superior economic power if within an affected market (19) his market share exceeds 30 percent.

27.2. Two or more enterprises enjoy superior economic power if there is no substantial competition among such enterprises, or if there are three enterprises whose combined market share in the affected market exceeds 50 percent.

28.1. In determining superior economic power, parties to an agreement excepted under section 18, or exempted under section 20 from the prohibition of restraining competition must be considered jointly.

#### **Control Over the Unification of Business Organizations and the Acquisition of Controlling Influence in Business Organizations**

29.1. Permission must be requested from the Office for the unification (merger, fusion) of business organizations, if:

(a) The combined market share of the participants in the affected market concerning any one of the products sold exceeds 25 percent; or if

(b) The pretax sales revenues of the participants during the previous year exceeded 10 billion forints.

29.2. The term "participant" means all business organizations that are part of the merger.

30.1. Participants in a planned merger must jointly request permission from the Office.

30.2. Based on the application, the Office must promptly publicize the names of participants as well as the affected branch of the economy, but without violating rights related to the preservation of business secrets.

31.1. Except as provided for in 31.2 below, the Office shall not approve applications for merger which

(a) Lead to the evolution or reinforcement of superior economic power; or which

(b) Impede the evolution, maintenance, or development of efficient competition.

31.2. In contrast to the provisions of section 31.1, the Office may authorize merger if:

(a) Advantages created by the effects on competition exceed the disadvantages; or if

(b) Competition is not frustrated in regard to a substantial part of the products.



31.3. Determination of advantages and disadvantages shall be based on criteria contained in section 20.

32.1. In authorizing a merger, the Office may establish conditions.

32.2. The authorization may also extend to additional restraints on competition which are necessary to the achievement of a merger.

33. The Office shall notify the applicant of its decision within 90 days of the date of receipt of the application, in the form of a determination. If the Office does not issue a determination within 90 days, the application shall be regarded as having been authorized.

34. If business organizations involved in a merger do not apply for permission, or if the merger would not have been permissible even if applied for, the Office shall determine within six months of the date of the merger that the agreement, and the resolution ordering the merger are invalid, and shall so inform the court of registry having jurisdiction. No proceedings may be initiated beginning five years after the date of the merger.

35. The Office shall publicize the substantive contents of the authorizing or denying determination it made in the course of evaluating an application for authorization of a merger, without violating the just rights of parties related to the preservation of business secrets.

36.1. Rules pertaining to mergers shall also be applied in cases when the joint market share of the business organization acquiring controlling influence, and the existing business organization over which controlling interest has been acquired (jointly the two: "direct participants") in the affected market and in regard to any product sold by the direct participants exceeds 25 percent.

36.2. Influence over the other business organization is controlling if it enables determination of the other business organization's business decision. This may take place by:

(a) Acquiring a significant part of capital, assets, or, based on this, the number of votes in the other business organization; and/or through

(b) An agreement authorizing the influencing of decisions or the management of the affairs of the other business organization, or by actual conduct manifesting this fact.

37. The indirect participants must also be taken into consideration in examining the merger of business organizations or the acquisition of controlling influence over business organizations. An indirect participant is a person:

(a) Controlled by the direct participant in such a manner that the direct participant has acquired more than half of the capital, assets, or voting rights from the indirect

participant, or is empowered to manage the indirect participant's affairs on the basis of an agreement or otherwise;

(b) Who controls the direct participant pursuant to the criteria provided under 37 (a); or

(c) whom the direct participants exercising control, control in addition [as published].

#### Legal Consequences, Enforcement of Claims

38.1. Except for the exclusive violation of provisions 17-38, an aggrieved party may seek judicial recourse for infringements suffered under provisions of this law, by seeking the following civil remedies. An aggrieved party may demand:

(a) A determination of the fact that a violation took place;

(b) Issuance of a cease and desist order with regard to the violation;

(c) That the violator provide satisfaction in the form of a statement or in another appropriate form, and if necessary, that the violator on his part, or at his expense, provide appropriate publicity that provides adequate satisfaction;

(d) That the detrimental condition be discontinued, that the condition prior to the violation be restored, and that the features which constitute the violation be removed from the products sold, or if this is not possible, the destruction of the products, as well as destruction of the special implements needed for the production of the product;

(e) That indemnification be paid pursuant to rules of responsibility specified in civil law; and that

(f) The contract be declared null and void.

38.2. In the event that conditions specified under 25 (b) also prevail, the aggrieved party may request that the court establish a contract. The court may establish a contract and may determine the contents of such a contract pursuant to usual conditions that prevail in the trade.

38.3. In the event that the provisions of sections 3-13 of this law are violated—if the violation severely infringes upon or endangers the purity of competition—the Office may petition the court and assert claims under civil law, as those are specified under 38.1, subsections (a), (b), (d), and (f).

38.4. In the event that the aggrieved party has sought judicial recourse, and:

(a) If the provisions contained in sections 25-28 have also been violated, the court shall request the opinion of the Office; and

(b) If the provisions contained in sections 17-24 or in sections 29-37 have also been violated, the court shall transfer the case to the Office to render a determination.

39.1. The Office shall monitor the observance of the provisions of this law.

39.2. In the event that the provisions of this law are violated—except for violations of provisions specified in sections 3-13—the Office:

(a) May issue determinations establishing the fact that a violation has taken place, including the fact that an unwarranted refusal of reaching an agreement took place (25 (b));

(b) Is authorized to issue determinations prohibiting continuation of the illegal conduct, except for the provisions contained in 25 (b);

(c) Is authorized to order the reinstatement of conditions that existed prior to the violation;

(d) is authorized to prohibit the violator's threatening conduct, or to obligate the violator to take steps to avoid damage, or if needed, to provide assurances, if the violator's conduct threatens to cause damage.

39.3. The Office may issue a determination establishing the fact that an agreement resulting in the restraint or exclusion of competition is not prohibited, and it may decide to issue an exemption.

40. If a determination issued by a state or social organ violates the provisions of this law, the Office is authorized to file suit in court.

41.1. The Office may fine persons violating the provisions of sections 17-37.

41.2. In determining the amount of the fine the following must be considered:

(a) The financial advantage achieved as a result of the unlawful conduct;

(b) The damage caused to consumers and to competitive bidding as a result of the unlawful conduct; and

(c) The significant endangerment of interests related to competition [as published].

42.1. The fine shall exceed the illegally acquired financial advantage or the damage caused by at least 30 percent, but shall be no more than twice that amount.

42.2. In the absence of illegal financial advantage or damage, the Office shall determine the amount of the fine by way of an estimate, with due regard for all circumstances.

43. In cases deserving special consideration, the amount of the fine may be established at a level lower than provided for in sections 42, or may be waived altogether.

44. Independent of the fine, the Office shall obligate the entrepreneur to reimburse the excess income derived as a result of violating this law to the aggrieved party. If the person of the aggrieved party cannot be established, or the amount to be reimbursed does not so warrant, the illegally acquired excess income shall be paid in to the state budget.

45. The Office may obligate the person who charged a price in violation of the this law for a period not exceeding one year:

(a) To charge the (maximized) official price, while at the same time determining that official price; or

(b) To permit raising the price subject to conditions, while at the same time determining those conditions.

46.1. If a person creates significant disadvantage or affects large groups of consumers by pursuing activities contrary to this law, that person may be sued by interest groups or by the Office to enforce the consumers' claims under civil law, even if the persons of the aggrieved consumers cannot be identified.

46.2. The claim mentioned in 46.1 may be enforced within one year from the date that the disadvantage has occurred. The statute of limitations provisions of the Civil Code of Laws shall be used to determine this date.

46.3. The court shall determine the legal basis of a claim in the course of a proceeding, and shall specify the method by which the claim shall be satisfied. Correspondingly, the court may obligate a violator to lower the price, to repair or exchange a product, or to repay the price. In the case of a judgment against the defendant, as part of its judgment the court shall authorize the plaintiff to publicize the judgment in a national newspaper at the expense of the violator.

46.4. The violator is obligated to satisfy the aggrieved consumer's claim pursuant to the judgment. This does not affect the consumer's right to enforce other claims pursuant to provisions of the Civil Code of Laws.

#### **Bureau of Competition Proceedings**

47.1. Upon completion of an investigation, a three-member council of the Office holds a hearing.

47.2. The council issues a determination after the hearing. A hearing may be waived and a determination may be issued with the consent of the affected parties. Determinations must be served to the entrepreneur subject to investigation.

47.3. The hearing date must be established in such a manner that the parties affected by the case (hereinafter: "parties") shall have an opportunity to review the files that constitute the basis of the investigation and to prepare for the hearing.

48.1. The Office may initiate proceedings upon request, or on an ex officio basis. Any party aggrieved under the Law may petition the initiation of a proceeding.

48.2. Provisions of Law No 4 of 1957 shall apply with regard to issues not governed by this law, but arising in the framework of the Office's proceeding.

48.3. Proceedings of the Office shall consist of the following phases: investigation, council hearing, council determination.

48.4. Consumer interest groups shall be notified of the proceedings, if the activities subject to the proceedings affect broad groups of consumers, or have caused significant disadvantage to broad groups of consumers.

49.1. The Office, or the person authorized by the Office to conduct an investigation, is entitled to take the following action for purposes of performing the functions specified in this law, within the framework specified in this law:

(a) To obligate the entrepreneur to provide information, including permission to gather on-the-scene information. This shall be accomplished without delay, as warranted by the nature of the case;

(b) To conduct an investigation of the entrepreneur's premises, including a review of business documents, even if such documents contain state secrets or service secrets;

(c) To make copies of documents, or to excerpt documents.

49.2. The person conducting the investigation shall have the authority to take possession of documents only if he discovers serious irregularities, or if there is concern that the documents will be falsified or destroyed.

49.3. The person conducting the investigation may enter any of the entrepreneur's premises, and may request oral or written information from any one of the entrepreneur's workers.

49.4. If the investigation demands that investigative acts be performed at other entrepreneurs or state and social organs, such entrepreneurs and organs are obligated to provide information and to permit access to documents.

50.1. Parties may make appearances at the hearing, either in person or through representatives, and may comment on the findings of the Office. They may submit evidence as to the truth of their comments prior to completion of the hearing.

50.2. Prior to issuing its determination, the proceeding council may take interim measures if protection of the legal or economic interests of the parties so warrants, or if the evolution, maintenance, or development of effective competition is endangered.

50.3. The expenses to be incurred in proceedings conducted by the Office shall be advanced by the state. As

part of its determination ordering a proceeding, the Office may obligate the person who causes the need for the proceeding to arise, to pay for the costs of the proceeding. The extent of such costs may be established at between 1 and 5 percent of the damage involved in the subject case.

51. Except for proceedings involving abuse of superior economic power, the Office's proceedings shall not be public.

52. The Office may publicize its determination, if within a specified period of time no judicial review was sought (53.2), or after an affirmed judgment was issued by the court. In publicizing the outcome of proceedings, legitimate interests related to the preservation of the parties' business interests must be observed. The particulars of a proceeding shall not be publicized prior to the affirmation of a determination.

53.1. The Office cannot modify or revoke its determination.

53.2. Determinations made by the Office cannot be appealed. Judicial review of the Office's determinations may be sought within 30 days of the announcement of the determination.

53.3. Except with regard to determinations establishing a fine, the submission of petitions to the Office shall have no delaying effect.

53.4. Court proceedings must be conducted pursuant to the provisions of Chapter 20 of the Code of Civil Procedure, including deviations authorized by law.

54.1. Adjudication of a request for judicial review is within the authority of county courts. The place where the Office is located determines the jurisdiction of the court.

54.2. The court cannot direct the Office to initiate de novo proceedings.

55.1. No proceeding shall be initiated if more than six months have lapsed since conduct contrary to the provisions of this law was discovered, but at most, three years have lapsed since such conduct took place [as published].

55.2. If conduct contrary to the provisions of this law takes place as a result of failing to cease a certain situation or condition, the period of lapse shall not commence as long as the situation or condition prevails.

#### Cartel Office

56.1. Except as provided for in 56.2, the competition oversight functions of the Office specified in this law, as well as in the law having the force of the Constitution concerning prices, shall be performed by the Cartel Office. The Cartel Office shall be headed by a minister.

56.2. In regard to money market, securities market, banking, and insurance activities the Securities Oversight, Banking Oversight, and Insurance Oversight organs shall oversee competition.

56.3. The Cartel Office shall not be subject to direction concerning individual cases under its jurisdiction.

56.4. The chairman and the members of the council in a proceeding are independent, and are subject only to the Constitution and to this law.

#### Closing Provisions

57. Civil claims enforced under the provisions of this law have no effect upon civil legal remedies that may be obtained under separate law, and on the possibility of initiating rule violations or criminal proceedings.

58. Within two years after the effective date of this law, the Office is authorized to investigate anticompetitive or exclusionary agreements reached prior to the effective date of this law, and may issue determinations consistent with this law.

#### Alternative "A"

59.1. Upon the initiative of state organs providing legal oversight, social organizations engaged in interest representation, or more than half of the separate business organizations recorded in the registry of firms (in the enterprise records), the Office may order a breaking up of the business organization into several business organizations, if continued existence of the business organization seriously endangers the freedom of competition, restricts the market in the long term, or results in superior economic power. An initiative of this nature may be made within a year after this law goes into effect.

59.2. The provisions of sections 20.2-3 shall be appropriately observed.

#### Alternative "B"

This rule shall be settled elsewhere because its subject does not involve the law on competition.

60.1. This law shall go into effect on ....., 1990.

60.2. Simultaneously with the effective date of this law:

—The provisions of section 4.2 of Law No 4 of 1959 concerning the Civil Code of Laws shall be replaced by the following: "Unfair conduct in the marketplace is prohibited by law. Detailed rules concerning the prohibition of unfair conduct in the marketplace are provided for in separate law."

—The second sentence of section 4.1 of Law No 4 of 1959 concerning the Civil Code of Laws, Law No 4 of 1984 prohibiting unfair business activities, Council of Ministers Decree No 32MT of 31 October 1984 concerning fines levied on businesses, and Decree No 69MT of 7 December 1987 which modifies Decree No 32MT/1984, as well as Decree No 37MT of 5

November 1984 concerning the market oversight and section 3. of Decree No 25MT of 8 April 1988 which modifies Decree No 37MT/1984 are hereby repealed.

60.3. Proceedings involving business fines in progress at the time this law takes effect shall be discontinued.

Budapest  
15 November 1989

## II. Proposed 1990 Law Having the Force of the Constitution Concerning Prices

The purpose of the law having the force of the Constitution is to enhance the functioning of the market economy by way of pricing regulations and pricing mechanisms, and to ensure that the most important determinant of prices shall be the market and the economy. To define the framework of intervention, and in the interest of informing entrepreneurs, the National Assembly creates the following law having the force of the Constitution:

1.1. The reach of this law extends to prices and fees charged in Hungary by legal entities engaged in business, by businesses or other associations without legal personality, and by natural persons.

1.2. The reach of this law does not extend to:

(a) Fees charged for services mandated by law; or

(b) Service fees regulated under the authority of separate law.

2. Prices and fees (hereinafter jointly: "price"), including price agreements based on competitive bidding and on auctions, shall be agreed upon by parties as specified by this law, and in observance of the law having the force of the Constitution prohibiting unfair conduct in the marketplace. Different provisions may be made only if authorized by a law having the force of the Constitution.

3. The organ authorized by the Council of Ministers shall establish the highest (maximized) prices, the lowest prices or price brackets (hereinafter: "official prices") for the products and services enumerated in Attachment 1.

4. In cases involving official prices:

(a) Prices higher than the highest (maximized) price shall not be charged; lower prices may be charged as agreed upon by the parties;

(b) Prices lower than the lowest price shall not be charged, higher prices may be charged as agreed upon by the parties; and

(c) The limits of price brackets shall not be exceeded.

5.1. Except as provided for in section 5.2 below, official prices must be established so that the justified costs and profits necessary for the functioning of an efficiently operating entrepreneur shall be covered, in due consideration of withdrawals and subsidies.

5.2. The Council of Ministers may decree the price of certain energy resources, independent of whether these prices are official or nonofficial prices, and in due consideration of long-term trends reflected in foreign markets, in which transactions are subject to settlement in convertible currencies.

6.1. The establishment of official prices may take place on an item by item basis, or by providing formulas for the calculation of such prices.

6.2. Official prices must be established in due consideration of conditions by which such prices are applied (e.g. quality, deadline, pacing, order size, place of performance, payment terms).

7.1. The establishment or the changing of official prices—including the conditions by which such prices are applied—may be initiated on an ex officio basis, or in response to the request of the person charging the price. In the latter case the petitioner is obligated to attach to his petition the recommendation made by the organ authorized by the Council of Ministers concerning the official price.

7.2. The organ referred to in section 7.1 may request data supportive of the establishment or changing of an official price, in either case.

7.3. The organ referred to in section 7.1 shall deny the petition or publicize the established official price within 30 days of the date of receipt of a request to establish or change an official price, or from the date that supportive data is received.

8.1. Official prices, or the conditions by which such prices are applied, shall be published in the form of price determinations (51, Law No 9 of 1987).

8.2. In issuing price determinations, provisions must be made regarding the effective date of the price; such determinations must not be retroactive.

8.3. Following the effective date of a price determination, contracts must be consummated in due regard to the new official price.

8.4. Contracts consummated prior to the effective date of a new price determination, but performed after the effective date of a new price determination, may be modified by the parties as follows:

(a) If the price is maximized, or if the upper price limit increases, a higher price cannot be stipulated;

(b) If the price is maximized, but the upper price limit decreases, a price higher than the official price in force at the time the contract was consummated cannot be stipulated;

(c) If the lowest price, or the lower limit of a price bracket decreases, a price lower than that cannot be stipulated;

(d) If the lowest price or the lower limit of a price bracket increases, a price lower than the official price in force at the time the contract was consummated cannot be stipulated.

8.5. In the event that the official price is discontinued between the time a contract is consummated and performed, the contract must be performed based on the price stipulated. The law may make exceptions in this regard.

9.1. If long-term imbalance exists in the market, or if entrepreneurs producing a given product enjoy superior economic power in the affected market, the Council of Ministers may establish an obligation to provide advance notice concerning a planned increase in the prices of certain products.

9.2. An entrepreneur has a duty to report to the organ overseeing competition\* a planned increase in the price of a product manufactured by himself, if that product is defined by law by the Council of Ministers, if the entrepreneur intends to charge a price that is higher than the price charged earlier, or if he applied various prices before, and intends to charge a new customer a price higher than the highest price charged thus far. (\*Note: the Cartel Office, according to laws prohibiting unfair conduct in the marketplace—with regard to product service provisions).

9.3. The planned price increase must be reported even if the increase takes place because of a change in conditions by which such prices are applied.

10.1. The report must indicate the extent, time, and reason for the price increase (e.g. cost, change in foreign market price, changes in supply and demand), as well as the planned sales volume of the product.

10.2. In the event that data in addition to the requirements established in 10.(1) are required for the evaluation of the report, the person reporting must provide supplementary data to the Office.

11.1. In its determination the Office may prohibit the planned price increase, if such an increase conflicts with the law prohibiting unfair conduct in the marketplace.

11.2. In the event that the report and supplementary data submitted cannot be evaluated within 20 workdays from the date of receipt of the report and supplementary data from the standpoint of the provisions of 11.1, the Office may suspend the implementation of the planned price increase for the time required for evaluation, but for no longer than a three-month period.

11.3. There is no legal recourse against action ordering suspension of a requested price increase.

11.4. Within the three-month suspension period, upon completing its investigation, the Office has a duty to issue a determination prohibiting or recognizing the price increase, whichever the case may be, depending on the results of its investigation.

12. If the Office did not suspend or prohibit the price increase or did not respond within 20 workdays beginning on the date of receipt of the report and supplemental data, the price may be increased only to the extent that it was stated in the report, at the maximum. Also in this case, payment of the higher prices is subject to agreement by the parties.

13. In cases involving mandatory reporting, in making offers regarding prospective contracts the increased price may be used if the Office did not suspend or prohibit the price increase, or did not respond within 20 workdays from the date of receipt of the report and the supplemental data.

14.1. For informational purposes, the Office may request that a given group of entrepreneurs enjoying superior economic power participate in consultation.

14.2. The information may pertain primarily to prices, factors influencing prices and price changes, and to the causes of possible market disturbances.

14.3. The Office shall utilize the information received in the course of its activities; with regard to preventing the most significant market disturbances the Office shall make recommendations to the government.

14.4. The Office shall publish in its official publication the names of persons requested for consultation, and as a matter of information the experience gained in the course of consultation—matters of interest to broad groups of entrepreneurs. In doing so the Office must consider rules for the protection of secrets and the protection of business secrets, and to concerns related to good business reputation.

15. The prices of products entering consumer trade must be clearly marked by the seller or by the service provider entrepreneur.

16.1. Within a certain group of products the Council of Ministers may require that the person who charges a price notify the Office within five working days following a price increase.

16.2. The person who sets official prices has a duty to notify the populace regarding official price increases that directly affect the populace, simultaneously with the effective date of the official price increase, at the latest.

17. In applying this law, a price is illegal if:

(a) It is charged in violation of requirements concerning official prices, the duty to report, and the tracking of long-term external market prices; or if

(b) The person who charges the price does not comply with his obligations with regard to a third person for the establishment of his prices at a given level.

18.1. Except for the provisions of section 15, the Office shall monitor the enforcement of this law; its proceedings shall be initiated ex officio or in response to a petition.

18.2. Enforcement of the section 15 provisions shall be accomplished by the organ charged with the protection of consumer interests.

18.3. In its determination the Office may prohibit the continued use of illegal prices, and simultaneously may obligate an entrepreneur to charge prices consistent with law.

18.4. In cases involving illegal prices, the Office shall impose fines, and shall take action for the refunding or payment of excess revenues derived on the basis of charging illegal prices, pursuant to separate Constitutional law (the Constitutional law prohibiting unfair conduct in the marketplace now being developed).

18.5. Proceedings of the Office shall be governed by the provisions of the Constitutional law referred to in section 18.3.

19. The provisions of this law have no effect upon civil legal remedies that may be obtained under separate law, and on the possibility of initiating rule violation or criminal proceedings.

20.1. This law shall go into effect on ....., 1990. Simultaneously, the following legal provisions will lose force:

[Passage omitted: Lengthy listing of Council of Ministers, Finance Ministry and National Pricing Office decrees and orders, and multiples of modifying orders related to various matters]

20.2. Simultaneously, on the effective date of this law the provisions of section 226.3 of Law No 4 of 1959 concerning the Civil Code of Laws shall be replaced by the following: "In the event that the parties do not agree upon a price and an official price exists with regard to the subject of the service provision, the official price shall prevail. The official price shall also prevail if, in violation of the law, the parties agreed upon a different price, and if it can be established that the parties would also have reached an agreement at the official price. In both instances the median price governs if price brackets were established."

Budapest  
20 November 1989

[Passage omitted: Attachment 1 per Pricing Law 3 listing various commodities, products, and services subject to maximum and minimum prices and price brackets]

[Passage omitted: Announcement of new, official publication of the National Pricing Office: PRICE, MARKET, COMPETITION, published by Kopint-Datorg]

## POLAND

### Conclusions Drawn From List of Manufacturing Industries

90EP0172A Warsaw POLITYKA-EKSPORT-IMPORT  
in Polish No 20, 30 Sep 89 pp 17-18

[Article by Andrzej Sznajder: "Ranking of Exporters"]

[Text] The list of the 500 largest Polish manufacturing industry enterprises has been published by the monthly ZARZADZANIE for the sixth time. For the 4th year now, it also has data on the share of exports in the volume of sales of these companies which makes it possible to offer a certain description of Polish industrial giants from the point of view of their export orientation.

Just as in the previous years, this list has been prepared on the basis of the share of exports in the total sales of these enterprises. Therefore, it does not rank the export leaders in terms of the volume of exports but rather from the standpoint of the export-oriented nature of their production.

The Copper Mining and Smelting Combine Lubin, the Bumar-Labedy in Gliwice, the Siarkopol in Tarnobrzeg, the Megat Conglomerate in Warsaw, the Katowice Steel Mill, and the Stalowa Wola Steel Mill would top the list of largest exporters (in terms of the total value of exports), just as last year. As can be seen, traditional exporters from the mining and manufacturing industries dominate this year as well. The Siarkopol enterprise

from Grzybow which leads in terms of the share of exports in total sales registers a considerably lower volume of exports compared to them. However, if both indicators were to be taken into account, the leaders would include the Siarkopol from Tarnobrzeg, the Bumar-Labedy in Gliwice, and the Hortex in Gora Kalwaria.

The share of output for exports in the total product sales of the group of enterprises in question has been growing consistently in recent years: from 15.72 percent in 1985 to 11.15 percent [as published] in 1987, to 20.91 percent in 1988. However, these statistics cannot be interpreted unambiguously as proof of the increasing involvement of Polish enterprises in economic exchanges with foreign countries. After all, the increase in this indicator is to a great degree the result of the decline in the value of the zloty against the dollar and the ruble. However, it is a fact that in 1988 the growth of volume of exports by Polish enterprises was also registered. Therefore, this could have also affected the surveyed group of economic units.

In 1988, 54 out of the 500 enterprises ranked exported more than half of their output which signifies an improvement compared to the previous year when 49 enterprises attained this level (see POLITYKA-EKSPORT-IMPORT No 18, 1988).

Taking into account the share of exports (in sales prices) in overall sales, the enterprises analyzed may be divided into several groups detailed in table 1. It also includes a comparison with the 1987 situation.

Table 1  
Share of Exports in Total Sales

Share of Exports in Percent	Number of Enterprises		Percent of Enterprises in a Given Bracket	
	1987	1988	1987	1988
0	55	56	11.0	11.2
0-1	26	31	5.2	6.2
1-10	164	147	32.8	29.4
10-25	130	130	26.0	26.0
25-50	76	82	15.2	16.4
Over 50	49	54	9.8	10.8

Source: Author's calculations based on the "List of 500," ZARZADZANIE, 1988, No 6, and 1989, Nos 6 and 7.

The above list suggests that 89.2 percent of enterprises still allocate less than one-half of their products for exports. Thirty-one enterprises, or 6.2 percent from among the analyzed group of 500, are at the initial stage of export operations selling abroad less than 1 percent of their output. Compared to 1987, the number of enterprises in brackets with the highest shares of exports increased but this definitely still is not a satisfactory situation.

The Siarkopol Grzybow ranked first among the leaders of enterprises with the highest share of exports (90.83 percent). The CZSMI [expansion unknown] in Murowana Goslina, an enterprise which last year was not among the best, was not far behind (90.79 percent). The 1987 leader, the Fats Industry Enterprise in Kruszwica, now ranks as low as close to the end of the first 10. Table 2 presents the top 20 largest exporters (in terms of the share of exports in sales).

**Table 2**  
**Largest Polish Exporters in 1988**  
**(ranked by the share of exports in their sales)**

Name	Share of Exports in Percent	Ranking on the 500 List	Profit Margin, <sup>1</sup> Percent	Amortization of Fixed Assets <sup>2</sup>
1. Siarkopol Grzybow	90.83	124	51.49	58
2. CZSMI Murowana Goslina	90.79	243	37.34	27
3. Meraster Katowice	87.34	402	73.70	18
4. Northern Shipyard Gdansk	86.52	86	59.13	37
5. Ponar Ostrzeszow	85.06	434	79.83	36
6. Rafamet	83.61	445	50.29	54
7. Siarkopol Tarnobrzeg	83.54	16	47.59	53
8. Era Warsaw	81.24	169	33.88	48
9. Fats Industry Enterprise Kruszwica	79.65	139	15.37	40
10. Amalgamated Nuclear Equipment Plants Warsaw	78.89	213	86.30	40
11. ZUP Nysa	78.60	374	60.66	57
12. Hortex Gora Kalwaria	78.47	46	16.28	28
13. Bumar-Labedy Gliwice	77.99	15	68.32	43
14. Agromet-Rofama Rogozno	77.58	390	18.30	36
15. Textile Machinery Plant Bielsko Biala	77.34	401	67.99	60
16. Polam Gostynin	77.29	239	31.76	43
17. Mera Blonie	76.79	117	56.84	40
18. Polfa Rzeszow	74.64	351	139.92	34
19. Ema-Elester Lodz	74.51	310	39.96	50
20. PZL [Polish Aviation Plants] Wola, Warsaw	74.36	108	47.81	58

<sup>1</sup> The net profit margin represents the ratio of financial result to the self-cost of [products] sold.

<sup>2</sup> The indicator of amortization of fixed assets represents the percentage ratio of the value of amortization to the gross value of fixed assets.

Source: Author's calculations based on the "List of 500," ZARZADZANIE, 1988, No 6, and 1989, Nos 6 and 7.

As the table suggests, both large enterprises, such as, for example the Bumar-Labedy, the Siarkopol in Tarnobrzeg, or the Northern Shipyard in Gdansk, and smaller enterprises, for example, the Ponar in Ostrzeszow, the Meraster in Katowice, or Polfa in Rzeszow, are found among leading exporters.

The CZSMI enterprise in Murowana Goslina which in 1987 did not export its products at all made the greatest jump in the ranking of exporters. Under our conditions, this is a sensation of sorts, as well as the proof that it is possible to generate large exports within a short period of time. However, as a rule, the involvement in export activities is gradual.

As far as the branch composition of the leading exporters is concerned, there are only three traditional producer-exporters of raw materials and heavy industry products on the list: two sulfur exporters and a shipyard. There also are exporters of long duration which have been conducting export operations on their own for quite some time, such as the Rafamet from Kuznia Raciborska or the Textile Machinery Plant in Bielsko-Biala, as well as new exporters, for example, the CZSMI in Murowana Goslina.

The high profit margins of the largest Polish exporters are noteworthy. The average for all manufacturing industry enterprises (the entire 500) amounted to 20.69 percent in 1988 whereas the average profit margin of the 20 leading exporters was almost 3 times higher. Only three enterprises in this group had profit margins lower than the average. The Polfa in Rzeszow and the Ponar in Ostrzeszow were the most profitable enterprises in the leading group of exporters in question. Of course, we should approach such comparisons with caution due to differences between the industries in which these companies operate and other conditions. However, the high profit margins of the main exporters are a fact. Actually, it was the same in 1987.

The degree of amortization of fixed assets in exporting enterprises is another interesting point. This indicator makes it possible to determine how up-to-date the production assets are, as well as the need for their modernization. On the average, this statistic amounts to 4 [as published; 40 is called for] percent among the 20 leading exporters. It is lower than the statistic for the 500 enterprises ranked which amounted to 50 percent. The following had the lowest rate of amortization of fixed assets: the CZSMI in Murowana Goslina (27 percent)



and the Meraster in Katowice (18 percent); the highest rates were registered at the Textile Machinery Plant in Bielsko Biala (60 percent) and the PZL [Polish Aviation Plant] Wola in Warsaw (58 percent). Therefore, these enterprises have to modernize their pool of equipment quickly if they want to at least keep their goods competitive in the foreign markets.

Of course, the list of leading Polish producer-exporters presented shows only some characteristics of these enterprises. Certain positive trends are apparent, such as the growth of the average share of exports in total output and high profit margins. However, drawing specific conclusions calls for a more precise analysis. The list of leading exporters may only be viewed as an indicator of certain phenomena.

### Foreign Markets' Periodical Presents Own List of Leading Exporters

90EP0171A Warsaw RYNKI ZAGRANICZNE in Polish No 123-124, 14-17 Oct 89 p 8

[Text] We are presenting a list of the 200 largest exporters in industry based on the GUS [Central Office of Statistics] data. The list includes enterprises of the manufacturing industry and three units from the extractive industry: the Mining and Metallurgical Copper Combine in Lubin, the Mine and Sulfur Processing Enterprise in Tarnobrzeg, and the Sulfur Mine Siarkopol in Grzybow. Enterprises and cooperatives in the meat-packing and dairy industries are not taken into account because they deliver their products for exports through specialized commercial enterprises. General suppliers, delivery assemblers, and service units are also omitted.

Our list is different from the list of 500 exporters of the manufacturing industry published annually by the monthly HANDEL ZAGRANICZNY because it is

entirely based on contract prices. HANDEL ZAGRANICZNY proceeds from sales prices as a base which can differ in some transactions. This is to say nothing about the fact that the list published in the monthly contains much detailed data on individual enterprises; in turn, we give only two basic data—the value of exports and the share of deliveries to the 1st payment zone [socialist countries] in exports. With a view to introducing an element of changes in time, we show the ranking in 1988 and in the year before.

We use common names of enterprises, e.g., Petrochemia Plock rather than the full official name—the Mazowsze Refinery and Petrochemical Enterprise.

Let us try to make several observations and draw certain conclusions from the published list of leading exporters in industry. Keeping in mind that the average exchange rate in 1988 amounted to about 430 zlotys per U.S. dollar, we find that the greatest exporter, raw-material rather than industrial anyway, generated slightly over U.S. \$500 million, and only 12 producers exceeded the U.S. \$100 million mark. Therefore, genuine export powerhouses are few and far between.

Second, little has changed at the top of the list. There are new arrivals only in the 19th and 20th places. Other changes in rankings compared to 1987 were no greater than 1 or 2 points (with the exception of the Gdansk Shipyard).

The third observation is that specialization of producers in exporting to the 1st or 2d [hard currency-denominated trade] payment zones is quite pronounced. This is not favorable because the elasticity of production in this case is quite limited. This, in turn, causes artificial compartmentalization of production.

However, in general, the conclusion is that foreign trade is still of little significance in boosting the growth of industrial manufacturing.

Ranking in 1988	Ranking in 1987	Enterprise	Exports (million zlotys)	Share of the 1st Zone
1	1	Copper Combine, Lubin	222,375	4.0
2	4	Katowice Steel Mill	131,517	48.7
3	3	Sulfur Mine, Tarnobrzeg	111,455	23.2
4	2	Bumar-Labedy	110,569	34.7
5	5	Megat	96,987	39.3
6	6	Stalowa Wola Steel Mill	87,887	64.6
7	9	Compact Car Factory, Bielsko-Biala	69,095	12.1
8	7	Polmag	56,968	67.0
9	8	Metalurgical Enterprise, Trzebinia	56,419	0.6
10	11	Automobile Factory, Warsaw	50,497	24.4
11	13	Petrochemia, Plock	48,671	0.5
12	12	Transportation Equipment Plant—Polish Aviation Plant, Mielec	43,856	85.5
13	16	Nowotko Steel Mill	36,669	35.3
14	14	Northern Shipyard, Gdansk	36,005	75.9

Ranking in 1988	Ranking in 1987	Enterprise	Exports (million zlotys)	Share of the 1st Zone
15	10	Gdansk Shipyard	31,863	52.6
16	18	Lenin Steel Plant	31,202	20.4
17	15	Szczecin Shipyard	31,074	98.4
18	20	Polfa, Starogard Gdanski	29,114	76.1
19	41	Nitrogenous Fertilizer Enterprise, Kendzierzyn	28,865	18.0
20	25	Zastal, Zielona Gora	28,561	90.4
21	17	Siarkopol, Grzybow	28,345	47.2
22	24	Hortex, Gora Kalwaria	25,945	21.2
23	23	Polish Aviation Plant—Wola, Warsaw	25,820	78.4
24	28	Mera, Blonie	25,412	99.7
25	19	Polish Aviation Plant—Swidnik	24,924	89.9
26	30	Czestochowa Steel Mill	24,176	39.6
27	37	Police Chemical Enterprise	22,336	0.1
28	26	Dalmor, Gdynia	22,333	0.1
29	27	Odra Swinoujscie	21,636	0.0
30	34	Chemical Enterprise, Oswiecim	21,073	1.3
31	29	H. Cegielski, Poznan	20,507	34.0
32	21	Gryf, Szczecin	20,211	0.0
33	44	Era, Warsaw	20,019	97.6
34	40	Repair Shipyard, Gdansk	19,562	79.1
35	31	Mera-Elzab, Zabrze	19,395	99.9
36	51	Zalom, Szczecin	18,667	0.3
37	38	Ursus	18,158	40.0
38	36	Organika, Brzeg	17,671	1.0
39	33	Vis, Warsaw	17,359	32.7
40	39	Fats Industry Enterprise, Kruszwica	17,262	—
41	35	Elwro, Wroclaw	17,071	96.1
42	50	Nuclear Equipment Enterprise	16,900	98.1
43	59	Nonferrous Metals Mill, Katowice	16,467	14.0
44	42	Automobile Equipment Enterprise, Praszka	16,300	97.9
45	55	Nitrogenous Fertilizer Plant, Pulawy	16,181	0.0
46	48	Organika-West, Bydgoszcz	15,783	9.9
47	45	State Aviation Plant-Rzeszow	15,622	81.3
48	46	Polfa, Jelenia Gora	15,533	98.5
49	47	Polfa, Grodzisk Mazowiecki	15,184	97.5
50	32	Polkolor, Piaseczno	14,950	57.1
51	43	Coking Combine, Zabrze	14,748	52.8
52	88	Nitrogenous Fertilizer Plant, Tarnow	14,714	6.9
53	58	Polam Gostynin	14,704	91.7
54	111	Nitrogenous Fertilizer Plant, Wloclawek	1,4441	0.2
55	49	Polfa, Tarchomin	13,984	87.3
56	61	Bumar-Warynski	13,981	88.9
57	66	Radwar, Warsaw	13,726	72.4
58	67	Polfa, Warsaw	12,874	98.6
59	54	Ema-Apator, Torun	12,366	97.8

Ranking in 1988	Ranking in 1987	Enterprise	Exports (million zlotys)	Share of the 1st Zone
60	64	Polmos, Warsaw	12,218	14.9
61	62	Soda Enterprise, Janikowo	11,982	2.4
62	52	E. Cedler Steel Mill, Sosnowiec	11,940	5.2
63	68	Cable Factory, Krakow	11,858	3.8
64	57	Gryfia Shipyard, Szczecin	11,841	90.8
65	86	Telkom-Telfa, Bydgoszcz	11,642	68.8
66	65	Ema-Elaster, Lodz	11,534	93.6
67	63	B. Ruminski Chemical Enterprise, Inowroclaw	11,379	2.2
68	22	Paris Commune Shipyard	11,367	29.9
69	60	Jelcz Car Works, Jelcz	10,732	35.7
70	99	Meraster, Katowice	10,655	99.8
71	82	Polfa, Pabianice	10,532	93.3
72	80	Glinik, Gorlice	10,360	73.9
73	56	Truck Factory, Lublin	10,352	86.7
74	93	Polfa, Rzeszow	10,239	99.8
75	79	Railroad Car Factory, Swidnica	9,935	86.1
76	75	Ponar, Ostrzeszow	9,914	99.5
77	71	Agromet-Rofema, Rogozno	9,769	100.0
78	83	ZPS [expansion unknown; could be Food Processing Enterprise], Chelmek	9,751	10.6
79	94	Refinery Enterprise, Gdansk	9,657	1.0
80	70	Industrial Equipment Enterprise, Nysa	9,637	90.2
81	78	Rafamet, Kuznia Raciborska	9,523	79.1
82	71	Befama, Bielsko-Biala	9,479	64.7
83	87	Pulp and Paper Enterprise, Swiecie	9,432	—
84	90	Nonferrous Metals Enterprise, Wroclaw	9,264	5.4
85	119	Blachownia Chemical Enterprise, Kedzierzyn	9,242	0.2
86	95	Enterprise of the Dye Industry "Boruta," Zgierz	8,932	32.7
87	75	Industry Association "The Commune of Paris," Radomsko	8,794	2.2
88	92	Telkom-Zwut, Warsaw	8,774	94.1
89	74	Tanning Inudstry Enterprise, Krapkowice	8,645	19.3
90	73	Mesko, Skarzysko Kamienna	8,574	73.0
91	89	SPU-Bial, Bialystok	8,337	64.0
92	103	Resarch and Industrial Center for Semiconductors	,8302	93.9
93	73	Polfa, Poznan	8,230	93.0
94	167	"Poko" Steel Mill, Ruda Slaska	8,223	35.4
95	105	Stomil, Debica	8,222	17.8
96	—	Furnel International Ltd	8,048	30.2
97	98	Polam-Pila	8,042	21.5
98	184	"Zygmunt" Steel Mill, Bytom	7,932	80.4
99	128	"Florian" Steel Mill, Swietochlowice	7,848	28.8
100	104	Furniture Factories, Swarzedz	7,831	27.1
101	81	Transocean, Szczecin	7,812	12.6
102	91	Bumar-Fadroma, Wroclaw	7,771	98.7
103	96	Predom-Zelmer, Rzeszow	7,651	3.8

Ranking in 1988	Ranking in 1987	Enterprise	Exports (million zlotys)	Share of the 1st Zone
104	97	"Friendship" Cotton Spinning Factory, Zawiercie	7,615	99.0
105	117	Ball Bearings Factory, Krasnik	7,595	33.2
106	125	Pulp and Paper Enterprise, Kwidzyn	7,571	—
107	69	Industry and Trade Enterprise, Gliwice	7,527	16.1
108	100	"Andoria," Andrychow	7,397	66.4
109	108	Radio Equipment Plant "Diora," Dzierzoniow	7,364	56.8
110	110	Glass Plant, Krosno	7,276	8.3
111	170	Walcment, Warsaw	7,146	11.2
112	106	"Nauta" Repair Shipyard, Gdynia	6,974	68.4
113	85	Nitrogenous Fertilizer Plant, Chorzow	6,888	2.1
114	194	Zawiercie Steel Mill	6,845	4.6
115	114	Unitra-Warel, Warsaw	6,623	98.9
116	121	Mera-Pnefal, Warsaw	6,557	91.8
117	155	Ball Bearings Factory "Iskra," Kielce	6,555	9.0
118	136	Lucznik, Radom	6,534	43.8
119	116	ZPM [expansion unknown] of the People's Guard, Radomsko	6,529	20.4
120	131	W. Gomolka Wifama, Lodz	6,528	56.9
121	—	Ponar-Wroclaw	6,470	73.4
122	109	Garments Industry Association Bytom	6,435	24.1
123	129	Polam-Wilkasy	6,409	100.0
124	102	Coking Enterprise, Walbrzych	6,290	80.7
125	53	Konstal, Chorzow	6,243	36.3
126	101	Cable Factory, Ozarow Mazowiecki	6,228	5.8
127	142	Elana, Torun	6,194	32.8
128	84	LZR [expansion unknown] Fonika, Lodz	6,173	82.5
129	209	Special Equipment Enterprise, Niewiadom	6,031	7.2
130	115	Polar, Wroclaw	6,028	9.3
131	126	Transportation Equipment Plant—State Aviation Enterprise, Warsaw-Okęcie	5,963	47.2
132	124	Vistula, Krakow	5,916	29.9
133	107	Warsaw Steel Mill	5,867	40.9
134	152	Pollena-Uroda, Warsaw	5,759	99.9
135	139	Steel Assemblies Plant "Mostostal," Radomsko	5,745	99.9
136	144	Gorazdze, Chorula	5,736	—
137	140	Romet, Bydgoszcz	5,730	16.1
138	163	"Vistula" Shipyard, Gdansk-Stogi	5,682	54.0
139	137	Carpet Factory, Kowary	5,662	41.9
140	113	Mera-ZAP, Ostrow	5,617	83.6
141	223	Engineering Equipment Plant, Swietochlowice	5,613	56.5
142	120	PZL-Hydral, Wroclaw	5,606	64.6
143	153	Fats Industry Enterprise, Brzeg	5,583	—
144	142	ZZG [expansion unknown] Company Ltd., Warsaw	5,546	48.3
145	138	Apena, Bielsko-Biala	5,496	92.8
146	147	Metalworking Plant, Tarnow	5,493	49.0
147	173	Electronic Medical Equipment Enterprise, Zabrze	5,451	98.0

Ranking in 1988	Ranking in 1987	Enterprise	Exports (million zlotys)	Share of the 1st Zone
148	154	Telkom-PZT, Warsaw	5,379	99.0
149	123	Transportation Equipment Enterprise-State Aviation Enterprise, Kalisz	288	76.4
150	158	Dozamet, Nowa Sol	5,254	80.1
151	164	FUM [expansion unknown], Poreba	5,233	31.4
152	169	Pulp and Paper Enterprise, Ostroleka	5,202	—
153	159	Telkom-RWT, Radom	5,039	90.8
154	135	Wolczanka, Lodz	5,020	11.1
155	238	Stomil, Olsztyn	4,986	11.1
156	143	Bumar-Fablok, Chrzanow	4,969	92.8
157	149	Aspa, Wroclaw	4,959	92.3
158	132	Poznan Poultry Enterprise, Kozioglowy	4,932	—
159	134	Prochnik Garments Industry Association, Lodz	4,922	4.4
160	161	Bumar-Famaba, Glogow	4,915	90.9
161	168	Metalurgical Enterprise Mystal, Myszkow	4,913	96.1
162	151	R. Luksemburg Polam Enterprise, Warsaw	4,886	74.1
163	156	Window Glass Plant, Sandomierz	4,836	3.4
164	204	Bydgoszcz Cable Factory	4,809	0.3
165	150	Bydgoszcz Furniture Factory	4,809	3.5
166	196	Zamosc Fats Industry Enterprise, Bodaczow	4,788	9.6
167	157	Electric Equipment Enterprise "Celma," Cieszyn	4,773	39.5
168	130	Tanning Industrial Enterprise Skogar, Lodz	4,690	35.8
169	145	Fats Industry Enterprise, Gdansk	4,647	—
170	192	Ball Bearings Plant, Poznan	4,629	84.7
171	162	Steel Assemblies Enterprise "Mostostal," Siedlce	4,590	82.9
172	165	Baildon Steel Mill, Katowice	4,544	0.8
173	175	Techma-Zugil, Wielun	4,527	91.4
174	193	ZEW [expansion unknown] First of May, Raciborz	4,524	7.2
175	171	EMA-Fael, Zabkowice	4,414	62.9
176	166	Cotton Industry Enterprise Bielbaw, Bielawa	4,401	8.3
177	160	Unitra-Eltra, Bydgoszcz	4,377	50.7
178	190	Refrigeration Equipment Enterprise, PZL-Debica	4,377	82.5
179	174	Polam-Pabianice	4,355	8.3
180	178	Kielce Poultry Enterprise	4,296	—
181	172	Polish Optical Plants, Warsaw	4,285	75.6
182	127	Kosciuszko Steel Mill, Chorzow	4,269	39.8
183	199	Flax Industry Enterprise "Len," Kamienna Gora	4,260	13.7
184	275	Machinery and Equipment Factory, Kluczbork	4,254	43.3
185	179	LTZ [expansion unknown] "Elterma," Swiebodzin	4,240	94.2
186	323	Bobrek Steel Mill, Bytom	4,235	—
187	182	Olsztyn Furniture Factories	4,223	82.5
188	176	Tanning Industry Enterprise "Podhale," Nowy Targ	4,195	24.5
189	177	Ponar-Zywiec	4,186	88.2
190	183	Transportation Equipment Enterprise-State Aviation Enterprise, Krakow	4,144	94.8
191	188	Telkom-Teletra, Krakow	4,126	99.4

Ranking in 1988	Ranking in 1987	Enterprise	Exports (million zlotys)	Share of the 1st Zone
192	185	Machine Tool Factory "Mechanicy," Pruszkow	4,035	80.7
193	255	Labedy Steel Mill, Gliwice	3,998	7.5
194	195	CHWM [expansion unknown] Enterprise, Alwernia	3,974	—
195	208	Paint and Varnish Factory, Wloclawek	3,932	75.0
196	311	Unitra-Telpod, Krakow	3,925	92.4
197	133	Polfa, Kutno	3,915	95.0
198	198	"Teofilow," Lodz	3,912	33.3
199	224	Footwear Factory "Polonia," Gniezno	3,877	55.0
200	231	Shock Absorber Factory, Krosno	3,843	92.9

### Helicopter Production Down, Italian Partnership Opposed

90EP0193A Warsaw POLITYKA in Polish  
No 43, 18 Nov 89 p 4

[Article by Marek A. Wosko: "Revolutions at a Standstill"]

[Text] At the same time, at 6 pm in Lublin, when the partners sat down to their last meeting before registration, several kilometers away, in Swidnik, Director Jerzy Bojko told the strike committee that he will not join the partnership. The committee ended the strike, and the director dashed off to Lublin to inform the remaining partners of his decision. They were not surprised one bit because the previous day Dziennik TV announced that the Swidnik WSK [Transportation Equipment Plant] was on strike because its workers did not want a partnership with the Italians.

It is a fact that this is happening because of detente. If it were not for detente, several hundred helicopters would be departing from the Swidnik WSK annually, most of them to the East. However, orders have fallen off since 1986. How quickly? Jan Widz, the factory's commerce director figures 42 percent on his calculator! The most knowledgeable planners did not foresee this 6 years ago; they estimated that helicopter production this year would expand to 270 Mi-2 helicopters and 90 W-3 helicopters, the all-Polish Sokol. Based on these plans, very important decisions were made at a high level: in 1984, the Swidnik WSK stopped producing its very popular motorcycle to produce helicopters. "When I was negotiating the Mi-2 contract for next year with the Russians, it suddenly turned very grim; they were not certain if they would buy even a single helicopter," says Director Bojko. "It is not surprising. Right now they need harrows or spades more so than helicopters."

Director Bojko believes such a situation is normal because all over the world it is easier to produce than to sell. Thus he is happy to receive any contract, even the one signed within the past several days for the delivery of 6 Sokols to South America. After all, a sale for dollars is incomparably more profitable than a sale for rubles because of price differences and exchange rates. For the Mi-2, for example, \$1 million at 2,100 zlotys to the

dollar (the exchange rates are already outdated but the proportions are valid) provides 2.1 billion zlotys, but 400,000 rubles at 650 zlotys per ruble provides only 260 million zlotys or only one-eighth as much for the same product.

"That is a somewhat oversimplified calculation," protests the chief director. "Orders for the Russian market comprise most of our production. If I did not produce for them, then they would not sell me the materials that go into the "Western" helicopters. These metal sheets, chemicals and components comprise about 30 percent of the total worth of material. No where can I purchase them as cheaply as I can there."

Helicopter production has been falling steadily over the past 2 years. Thus, attempts are being made to produce whatever one can for the civilian market, even the recent production of car trailers. Immediately after his talks with me, the director will meet with some Czechs who require 400,000 thousand textile machines annually and would like to buy them from the WSK. Director Bojko notes that the production of these machines should be undertaken just like the machines for an Austrian firm to install insulation on cables and wires that cost almost one-half million dollars each (presently 100 machines annually). Participation in the SIPMA partnership was to be another venture to guarantee production.

The Agromet FMR [Agricultural Machinery Factory] in Lublin is the primary partner and initiator of the venture. For a couple of years it has been conducting talks with Italian firms on the production in Poland of rolling presses, and single- and dual-axle tractors. The new law on joint ventures provided directions: Polish firms would have 80 percent of the partnership; Italian firms, 20 percent. Most of the production will be for Poland; some of the rollers and future surplus tractors will be exported. The WSK was supposed to produce engines. Americans were found who would provide a credit of \$24 million to the partnership. For the first 3 years, the loan would be repayed with pulse crops (rape and beans) from five state farms (also partners) and then with production.

The partnership committed only about 3 percent of Swidnik's plant, barely one factory building and its

machinery, realistically evaluated, according to the director, at 400 million zlotys. Up to 300 people would work there, employed by the partnership, who would come mainly from the WSK workforce. Machinery, costing over one-half the provided credit, that is, \$16-18 million, would have been installed in this building.

"Now everyone says that if it were a cooperative, then we would join, but not a partnership. I, too, would have preferred it so. That is how the talks started, but it quickly turned out that no one would give us almost \$20 million without our joining the partnership as a guarantee that we would actually produce tractor engines and not something entirely different if things change for us," explains the director.

On Wednesday, the 4th of October, the Worker Council, on a 26 to 12 vote, agreed to join the partnership. The majority of the council are Solidarity members.

"In addition to voting on that specific matter, I brought up a very basic question: Should we in the future also participate in other partnerships that include foreign capital? That very day we sent to Walesa and the KKW a completed questionnaire concerning types of ventures that interest us and what we have to offer. If proposals were received, I cannot explain afterward to some Austrian or whoever that our talks are preliminary, and that later on 50 men will meet to vote on the proposal because immediately he will seek another, more serious partner," says Director Bojko.

The next day the occupation strike started. Spontaneously, according to the declaration by the Plant Commission, which immediately afterward was transformed into the Strike Committee, supporting the worker's protest. Four demands were made: appoint a new Worker Council and management; obtain production that would guarantee full utilization of the plant's capacity; disallow the formation of nomenklatura partnerships until new legal regulations are implemented; and withdraw from existing partnerships. Joining the SIPMA partnership was designated as being the minor but direct reason for the strike. Each and everyone repeated the story that the partnership transfers a national asset into the hands of the party's first secretary in Swidnik, the head of the plant and the previous general manager. All three of them were supposed to be partners, and one of them, though no one knew exactly which one, was supposed to be the director of the partnership. Thus, the complaint about "nomenklaturization" in the demand.

The members of the Strike Committee (normally the Solidarity Plant Commission) now acknowledge, after the strike has been called off, that many rumors were spread, and it was easy to manipulate people. Perhaps it even was bad that the workers reacted in such a radical fashion.

They acknowledge that the present partnership does not include private individuals as participants. However, they add: What will happen in 5 years when the statute

permits such a possibility? Who then will obtain the shares? It is known that it will not be the workers, they say.

"The Italians are only providing documentation, risking paper. The partners are not at risk; the Polish worker will have to pay for the American credit," complains Kazimierz Bachamek, commission member. He believes that the evaluation of 450 million zlotys for the factory building is absolutely too low. He would support a cooperative, but a partnership—no thanks. The plant is experiencing a crisis, but this is not the medicine. The number of people directly employed in production, presently 1,700, is falling. In 1984 it was over twice as many. In their opinion, the management presents rosy plans, but to date they have not initiated large production which would fill the gap following the WSK motorcycle.

The unwillingness to join the partnership is based on great hopes for the possibility of transferring plant ownership to the workforce in the form of shares, which is supposed to occur after the regulations are changed. Even though Dr Leslaw Paga, who is a member of the team of the new minister of finances and who was present during the strike, warned that no one will distribute stock for free and probably few could afford it, the workforce prefer to wait and not dismember the plant.

The strike, the only one in many weeks (after Lech Walesa announced a strike moratorium to support the new government), was difficult not to notice. Not much could be understood from the brief information provided by Dziennik TV: are they striking because they do not want a partnership with foreign capital? After all, the government itself is encouraging such partnerships, and the very chairman of the union initiated many partnerships during his trip to the FRG.

"If Walesa proposed this partnership, then we would have accepted," stated one of the members of the commission.

However, it did not turn out that way. The chairman did not come to Swidnik with an offer. But Stanislaw Weglarz, TZ chief of the Eastcentral Region and a member of Solidarity's leadership, did visit. Officially, the region did not take a stand regarding the strike.

"To put it mildly, he told us that under the present condition he wished there were no strike," acknowledges Andrzej Borys, the first deputy chairman of the plant commission, "and I cannot tell you any more, sir."

The commission members, however, finally say that in reality it was good that a strike occurred because perhaps it will mobilize the management to present concrete production plans for next year and then the means of realizing these plans. They believe that the threat of unemployment at the plant is real without a stable and large production. Regarding sales to the USSR, they claim they are not profitable.

It is no wonder that Dr. Paga of the Ministry of Finance is surprised. "After all the WSK risks nothing, contributing barely 3 percent of the assets. The partnership would provide only benefits for the plant. Several hundred people would be employed, some of the unproductive machines would be utilized, additional production orders would be received and, what is most important, the perception that the problems could be resolved only through the sale of the entire plant or by the entire plant entering a partnership would be overcome. Who now would want to negotiate with a partner who is unreliable and vacillating? We are concerned here about the factory's commercial interests, which now must be stabilized in order to expand later," he told the journalists from Lublin's RELACJE.

The strike was finally called off late in the evening on October 24 after Director Bojko presented the minimum program for next year to the strike committee. The program calls for the production of 70 Mi-2's, including

41 to the USSR, and 30 Sokols, including 6 to South America and the remainder to Poland and the USSR. Civilian production will include packaging and labeling machinery for the food industry, equipment to install insulation for Austria, and the mentioned textile machines for the Czechs. All this is certain, the director testified, and he will continue to seek new "themes."

Marian Krol, the chairman of the Plant Commission, tersely informed me that the strike was over, and that he would not comment on the director's program because he does not want to be interviewed by a nomenklatura newspaper as long as it cannot be trusted.

P.S. The SIPMA partnership will manage without the Swidnik WSK. Sensing a situation that was uncertain, Director Jozef Szozda of Agromet and the president of the SIPMA partnership earlier prepared two alternative plans for producing the engines—in their own factory or outside the region.



## HUNGARY

### Population Growth Policy: Timely, Circumspect Introduction Urged

25000562 Budapest FIGYELO in Hungarian  
14 Dec 89 pp 1, 4

[Article by Gyorgy Enyedi and Peter Tamasi: "Population Growth Policies: Is It Possible, Is It Permissible To Have Such Policies?"; first paragraph is FIGYELO introduction]

[Text] Hungary's population has shown a decrease in three instances since the end of the 19th century. During World War I (between 1915 and 1918), in the closing years of World War II (in 1945), and beginning in 1981 continuously to this date. Nor do population forecasts have anything good to promise: Based on present circumstances we must count on a shrinking population in the long term.

Population size is determined by the net balance of births and deaths, and of immigration and emigration. (At present, emigration does not constitute a substantial problem, moreover emigration is offset by immigration.) Except for during times of war, as in most European countries, the ratio of births and deaths has continuously declined in Hungary. This trend shows only small fluctuations.

Nevertheless, the Hungarian trend differs from the international trend at two important times. One of these is the early 1960's, when many children were born in developed countries, while compared to its earlier history and on a global scale, the number of births in Hungary reached a low point. On the other hand, while in most European countries the death rate decreased or stagnated during the past two decades, in Hungary it increased continuously beginning in the mid-1960's until 1986, when it rose to the level of the early 1940's. The male death rate is far worse. It has reached the level experienced in the 1930's. While

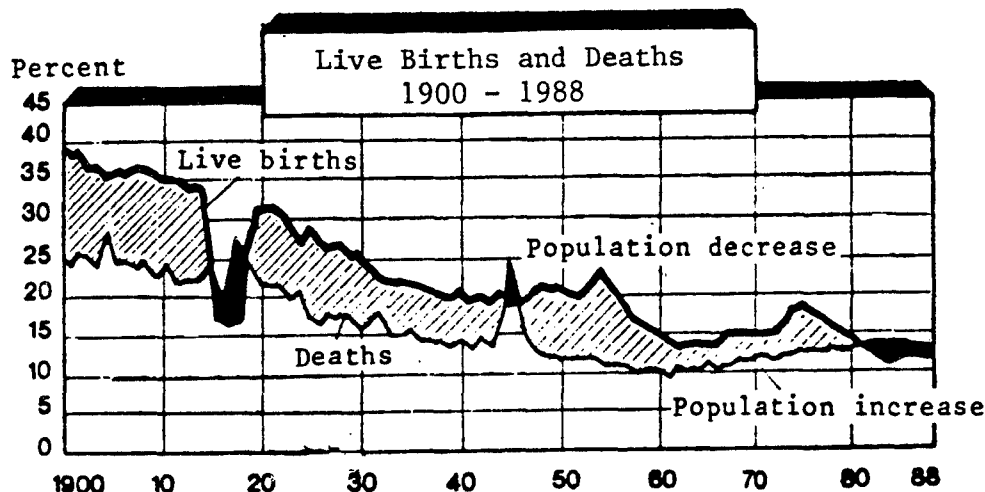
the average 1987 life expectancy for women was 73.7 years, it was 65.7 years for men.

If the population trend of the second half of the 1980's continues, the decrease in our population cannot be stopped for at least half a century, and the number of people may decrease by between 800,000 and 900,000 in the course of about three decades. The shrinking Hungarian population evokes just concern in many, and many of the concerned individuals demand an effective, firm population growth policy. Nevertheless the question remains whether such a policy can be pursued, and whether it is permissible to do so.

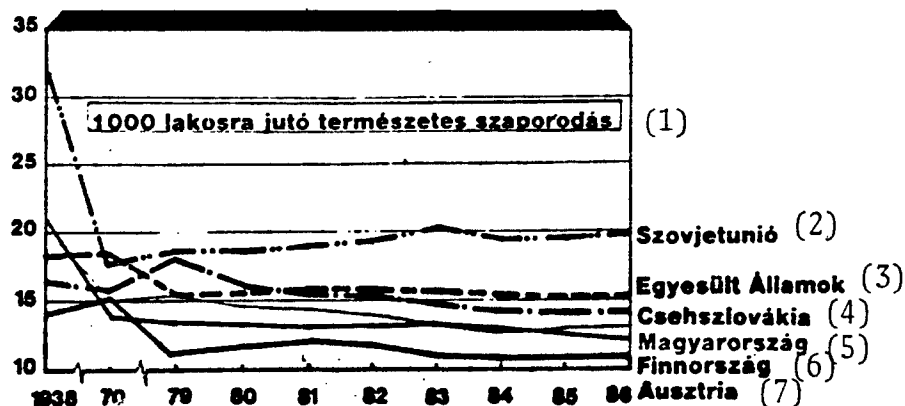
Opinions are divided in this regard. Population growth policies are perceived by many as limitations on the rights of individuals and families, as coarse state intervention in the intimate affairs of individuals and families. The general perception held in democratic countries is that the family must not be controlled by the political sphere, and that individual freedom must be guaranteed. On the basis of these views one should not pursue population growth policies.

But the necessity of pursuing such policies is also rejected by the view—we could say a free market view—which holds that sooner or later the number of births will adjust itself to a level that is appropriate from an economic standpoint. Advocates of a theory which holds that many children are born to small generations, and few children to large generations also reject the idea of intervention, because members of generations consisting of large numbers of people experience relatively worse conditions in starting their careers. This cycle repeats itself in about every 40 years and thus creates changes in the population.

For entirely different reasons, those who perceive the present low number of children as a long-term trend, and feel that any endeavor to change this trend would be futile because substantial changes cannot be achieved



## Rate of Live Births on an International Scale



Key:

1. Live births per 1,000 persons
2. Soviet Union
3. United States

4. Czechoslovakia
5. Hungary
6. Finland
7. Austria

through population growth policies, find that population growth policies are unwarranted. Population growth policies were also rejected by the "socialist" perception, because in socialist countries the optimum population conditions come about automatically, and a rational level of reproduction comes about by itself, so they say. This was not proven in practice.

Although the rest of the views mentioned here possess more or less legitimacy, in our view they treat the population growth process one-sidedly. Population growth is not solely the function of economic rationale. For example, the idea of having a child largely depends on cultural traditions and moral values, on standards that have evolved in a given society, on the educational level and on housing conditions, and may be influenced by marital and divorce practices and by momentary political and social circumstances. For example, a change in women's role in society modified their earlier values and outlook, and this manifests itself in having fewer children, together with the changed way of life.

Demographic conduct is part of the nation's culture. These conduct patterns are transferred from generation to generation, nevertheless we are unable to accurately keep track of this process. Ever since the end of the last century—when we began to acquire reliable demographic statistics—the natural growth rate of Hungarians has always been lower than that of our Slavic and Romanian neighbors. At the turn of the century, Hungarian demographic conduct resembled more closely the Central European conduct manifested by an increasingly bourgeois Austria and Czechoslovakia, than the Southern, Southeastern, and Eastern European countries of an agrarian character similar to ours. Countless factors prevailed in this regard, ranging from the Hungarian

inheritance right, which stimulated the landed Hungarian peasantry to have fewer children, to the significant influence of the Reformed Church that held more liberal views on contraception than did the Catholic religion.

Demographic conduct also manifests peculiar features on a regional basis. For example, all censuses show sharp differences in the demographic conduct manifested in Hungary's Southern Transdanubian, Southern Plains, and Northeastern regions. The latter region was characterized throughout the 20th Century by above average population growth. Accordingly, upcoming changes must be interpreted only in the context of behavioral patterns which appear to prevail in the long term.

The way death rates evolve is less dependent on national culture, even though in many respects death rates are also tied to national culture. (For example through lifestyle, customs, and standards prevailing in society.) Fundamentally, the improved death rate is a result of a significant drop in infant and child deaths, and in the less frequent occurrence of contagious diseases. Deterioration of the situation that began in the second half of the 1960's may be attributed in part to an aging population, in part to the sudden spread of certain diseases. Among these one finds liver cirrhosis linked to alcoholics and lung cancer that appears to be related to smoking, but some other forms of cancer are also becoming more prevalent. Deaths resulting from suicide also show a continuous increase.

The large number of heart and vascular diseases is most tragic. The spread of these has almost tripled, and already constituted more than half of all deaths in 1987. Information concerning the spread of these diseases has been suppressed for a long time. Various elements of

lifestyle—such as unhealthy nutrition, lack of exercise, smoking, excessive work—must be blamed for the spread of these diseases; at the same time, however, the weaknesses of preventative health care are also commonly known.

Accordingly, population trends are influenced by factors linked in a number of ways and determined by society. Anyone thinking in terms of population growth policies must primarily endeavor to accomplish a change in the societal factors which in some way influence people's lifestyles, their inclination to have children, etc. The most deep-rooted change could be achieved by changing the value system of course—e.g., by raising the number of children to be desired—but this would not be easy either. At present, Hungarian public opinion does not reflect either health or children as primary values.

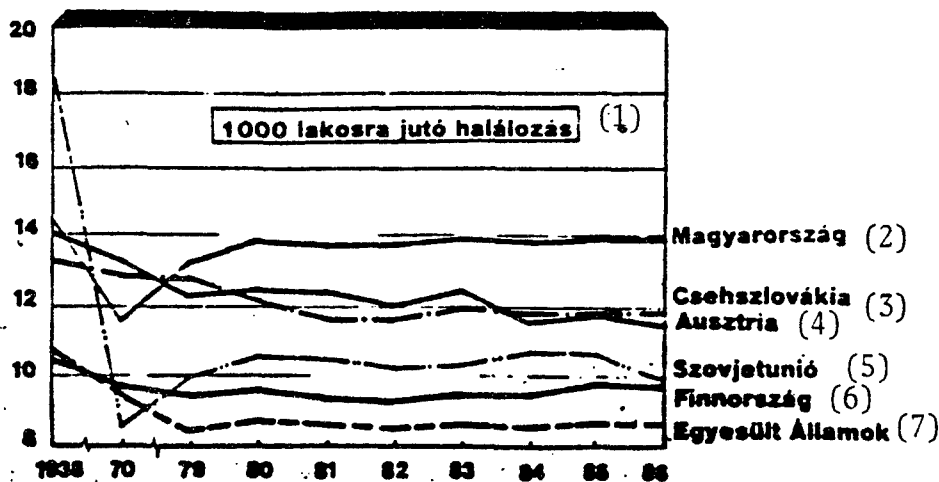
Under no circumstances should population growth policies be regarded as a matter of implementing administrative measures. Although such measures would produce superficial results, in the past they have failed both from a political and a demographic point of view. A 1953 determination made on the basis of faith in unlimited opportunities available to the political sphere, and not acknowledged officially as a population growth policy, temporarily increased the number of births, but it also served to cause trauma for many people, and another low point occurred in the early 1960's. A generational fluctuation came about as a result, which has repeated itself ever since. Moreover, the 1973 population growth measures which were not supported by scientific research increased this fluctuation because they exerted an impact upon a larger generation born 20

years earlier. Administrative measures (1953) or hasty measures (1973) involving population growth are capable of causing great damage. Indeed, one must not pursue these kinds of "population growth policies."

On the other hand, it is possible to find solutions which influence population growth without violating the freedom of people. The moral basis for exerting such influence is that without such influence the living conditions of one or more generations may significantly deteriorate. For example, the standard of living of two population groups will decline if a large generation of old age people is sustained by a small, active populace. The essence of the various alternative solutions is that they should not exert constraining and discriminatory effects, but should provide incentives instead. Individual choices should not be restricted—e.g., by taxing childless couples. A choice should be provided instead, by providing assistance for the establishment of families, for instance.

In order for a population growth policy to be really successful, it must not manifest itself in the form of a onetime action, but must instead be followed through the entire process. In other words, it will not suffice to provide benefits only at the time of birth and immediately thereafter. Subsequent segments of bringing up a child must also be made more attractive and easier by providing family supplements and tax benefits. The fundamental criterion is that population growth policies start out from the actual demographic situation, and such policies do not serve political interests derived from various ideologies.

Death Rate on an International Scale



- Key:
- |                             |                  |
|-----------------------------|------------------|
| 1. Deaths per 1,000 persons | 4. Austria       |
| 2. Hungary                  | 5. Soviet Union  |
| 3. Czechoslovakia           | 6. Finland       |
|                             | 7. United States |

Finally, population growth policies must be made an integral part of a unified social policy, within which the individual policy elements evolve in harmony. Advance forecasts concerning the future size of the population will have been made in vain if the related economic, work force, family, health care, and pension policies do not pay appropriate attention to these forecasts. Each policy element should include alternatives to resolve problems caused by the future demographic situation.

Let us mention just two examples. Fundamental principles concerning employment were developed at times when the population capable of earning a living were increasing at a rapid pace. These principles have not been changed ever since, even though meanwhile the demographic situation has become entirely different. Or: The gradual aging of the population is causing the total collapse of the present pension system. Several opportunities offer themselves for the resolution of this problem, for example: increasing the retirement age, increasing pension contributions, decreasing the real value of new and high level pensions—but all of this must be accomplished in harmony with the way in which the demographic situation evolves, and in conjunction with the given social and economic situation.

This question arises: What chance do we have of influencing population growth processes? Many researchers give this only a minimum chance. True, they have been able to draw conclusions only on the basis of mistaken or narrowly construed "population growth policy" consequences. Thus far no comprehensive population growth

policy has evolved, one that takes into account all the factors and one that places on its agenda a change in the social background factors. This is true, even though the number of births cannot be increased, the number of deaths cannot be decreased, and a possible emigration wave cannot be reduced without appropriately changing the social milieu, and the lifestyle that results from such a change.

Population growth policies must be differentiated: Various social groups must be approached in different ways, by considering the peculiar features of each of these groups. At the same time one must not discriminate. For example, not only should urban working women be stimulated to give birth to children—for various reasons these women are less inclined to have children—but more attention should be paid to housewives in villages, who traditionally produce more children.

In order for a population growth policy to succeed, it must be introduced in a timely manner, consistent with the age composition of the populace. Based on advance estimates the timing is given: Population growth incentives must be introduced in 1990-91 at the latest, so that these incentives do not strengthen, but instead blunt the generational fluctuations that have evolved. At this stage it would be possible to take the necessary steps based on foresight, and on thorough consideration. Necessary measures taken a few years hence are likely to have a number of negative effects. And the neglect of all this may lead to an accelerated decrease in the size of our population—a decline that cannot be stopped after a while.

22161

68

NTIS

ATTN: PROCESS 103

5285 PORT ROYAL RD

SPRINGFIELD, VA

22161

This is a U.S. Government

publication. Policies, views, or attitudes of the U.S. Government. Users of this publication should cite FBIS or JPRS provided they do so in a manner clearly identifying them as the secondary source.

Foreign Broadcast Information Service (FBIS) and Joint Publications Research Service (JPRS) publications contain political, economic, military, and sociological news, commentary, and other information, as well as scientific and technical data and reports. All information has been obtained from foreign radio and television broadcasts, news agency transmissions, newspapers, books, and periodicals. Items generally are processed from the first or best available source; it should not be inferred that they have been disseminated only in the medium, in the language, or to the area indicated. Items from foreign language sources are translated; those from English-language sources are transcribed, with personal and place names rendered in accordance with FBIS transliteration style.

Headlines, editorial reports, and material enclosed in brackets [ ] are supplied by FBIS/JPRS. Processing indicators such as [Text] or [Excerpts] in the first line of each item indicate how the information was processed from the original. Unfamiliar names rendered phonetically are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear from the original source but have been supplied as appropriate to the context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by the source. Passages in boldface or italics are as published.

#### SUBSCRIPTION/PROCUREMENT INFORMATION

The FBIS DAILY REPORT contains current news and information and is published Monday through Friday in eight volumes: China, East Europe, Soviet Union, East Asia, Near East & South Asia, Sub-Saharan Africa, Latin America, and West Europe. Supplements to the DAILY REPORTs may also be available periodically and will be distributed to regular DAILY REPORT subscribers. JPRS publications, which include approximately 50 regional, worldwide, and topical reports, generally contain less time-sensitive information and are published periodically.

Current DAILY REPORTs and JPRS publications are listed in *Government Reports Announcements* issued semimonthly by the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 and the *Monthly Catalog of U.S. Government Publications* issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The public may subscribe to either hardcover or microfiche versions of the DAILY REPORTs and JPRS publications through NTIS at the above address or by calling (703) 487-4630. Subscription rates will be

provided by NTIS upon request. Subscriptions are available outside the United States from NTIS or appointed foreign dealers. New subscribers should expect a 30-day delay in receipt of the first issue.

U.S. Government offices may obtain subscriptions to the DAILY REPORTs or JPRS publications (hardcover or microfiche) at no charge through their sponsoring organizations. For additional information or assistance, call FBIS, (202) 338-6735, or write to P.O. Box 2604, Washington, D.C. 20013. Department of Defense consumers are required to submit requests through appropriate command validation channels to DIA, RTS-2C, Washington, D.C. 20301. (Telephone: (202) 373-3771, Autovon: 243-3771.)

Back issues or single copies of the DAILY REPORTs and JPRS publications are not available. Both the DAILY REPORTs and the JPRS publications are on file for public reference at the Library of Congress and at many Federal Depository Libraries. Reference copies may also be seen at many public and university libraries throughout the United States.